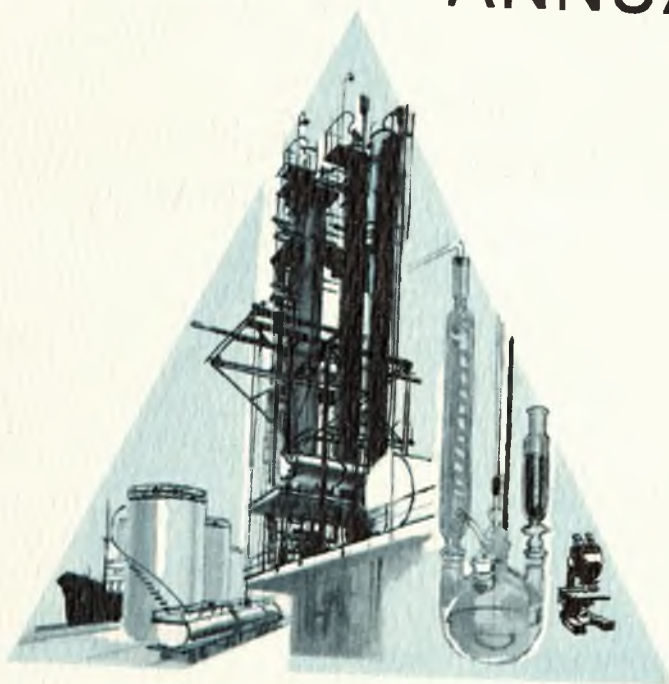


Exhibit A

COMMERCIAL SOLVENTS CORPORATION

ANNUAL REPORT 1966



Board of Directors

MAYNARD C. WHEELER*, *Chairman*
WALTER C. BERGER
AUSTIN S. IGLEHEART*
W. WARD JACKSON
WILLIAM S. LEONHARDT
G. HILMER LUNDBECK
GRAHAM W. McMILLAN
JEREMIAH MILBANK, JR.*

(Chairman, Executive Committee)

H. V. SHERRILL*
JOSEPH A. THOMAS
EMANUEL T. WEILER
ROBERT C. WHEELER
IVAN L. WILES

**Member of Executive Committee*

Officers

MAYNARD C. WHEELER, *Chairman of the Board and
Chief Executive Officer*
ROBERT C. WHEELER, *President*
J. FRED DUDLEY, *Vice President*
W. WARD JACKSON, *Vice President*
WILLIAM S. LEONHARDT, *Vice President & Treasurer*
GRAHAM W. McMILLAN, *Vice President*
ANTHONY H. BRAUN, *Controller*
HOWARD B. DURBIN, *Secretary*

Transfer Agent

Chemical Bank New York Trust Company
20 Pine Street, New York, N. Y. 10015

Registrar

The Chase Manhattan Bank, N.A.
One Chase Manhattan Plaza, New York, N. Y. 10015


CSC reports with profound sorrow the passing on April 6, 1966, of Joseph Echard Wheeler, Vice President in charge of Production and a member of the Company's Board of Directors. He was a dedicated employee of CSC for 32 years and a Director since 1963.



M. C. WHEELER, Chairman of the Board, CSC.

Annual Meeting

The annual meeting of shareholders will be held on April 6, 1967. A notice of the meeting, proxy statement and form of proxy will be sent to all shareholders shortly. It will assist the management in preparing for the meeting if shareholders who do not expect to attend the meeting in person will sign, date and return the proxy promptly.



Chairman's Letter

To Our Stockholders:

For CSC, 1966 was a year of record sales, a reduction in earnings from 1965 levels, and major decisions and actions relating to the Company's future.

Sales of \$95,355,580 compared with \$90,763,924 in 1965. Consolidated net earnings of \$6,279,220, or \$2.05 per common share, compared with \$6,745,653, or \$2.19 per common share, based on the average number of shares outstanding during each of the respective years.

All areas of the Company's operations did well except for fertilizers, where severe competitive conditions affected our markets. This was especially pronounced in Canada, where our Canadian subsidiary, Northwest Nitro-Chemicals Ltd., experienced a drop in net earnings on a sales volume comparable to the preceding year. Selling prices were substantially lower, and costs for raw materials, labor and shipping increased. As a result, Northwest's contribution to CSC consolidated net earnings was reduced by 35 cents per common share. Profits also were affected by sharply increased research expenditures to speed the development of our new estrogenic chemical family, the RAL's. CSC has increased its commitment of funds to research for this and other purposes by approximately 30 percent in the past two years.

Our financial resources increased in 1966, providing a sound funding base for large-scale growth and development projects. The public offering in June, 1966, of \$20,000,000 CSC 4½ percent Convertible Subordinated Debentures, due July 1, 1991, was fully subscribed on the first day that the offer was made.

The Company has been fortunate in adding to the demonstrated abilities of its experienced management team by obtaining the services of Robert C. Wheeler as President and a Director. Mr. Wheeler brings 29 years of total operational experience to CSC. He was previously

with Corn Products Company, where he was Executive Vice President, first in charge of their U. S. operations and, later, responsible for Corporate Growth and Development. Your Directors designated me, after seven years as President, to serve as Chairman of the Board and to continue as Chief Executive Officer.

Progress in developing the potential significance of the RAL's has exceeded our expectations. The discovery of these hormone-like chemicals was announced jointly with Purdue University a little over a year ago. In July, 1966, CSC and Merck & Co., Inc. joined forces to investigate pharmaceutical applications and other potentials of RAL compounds. We are pleased and encouraged by the synthesis of a number of RAL compounds and other results emerging from the combined endeavors of the two companies' research scientists. RAL research programs include the study of fertility control in humans and animals, calcium and nitrogen retention, materials to improve the health and growth rate of domestic animals, and for other purposes in the life science field. It is still too early to say when or to what extent these new chemicals may contribute to sales and earnings.

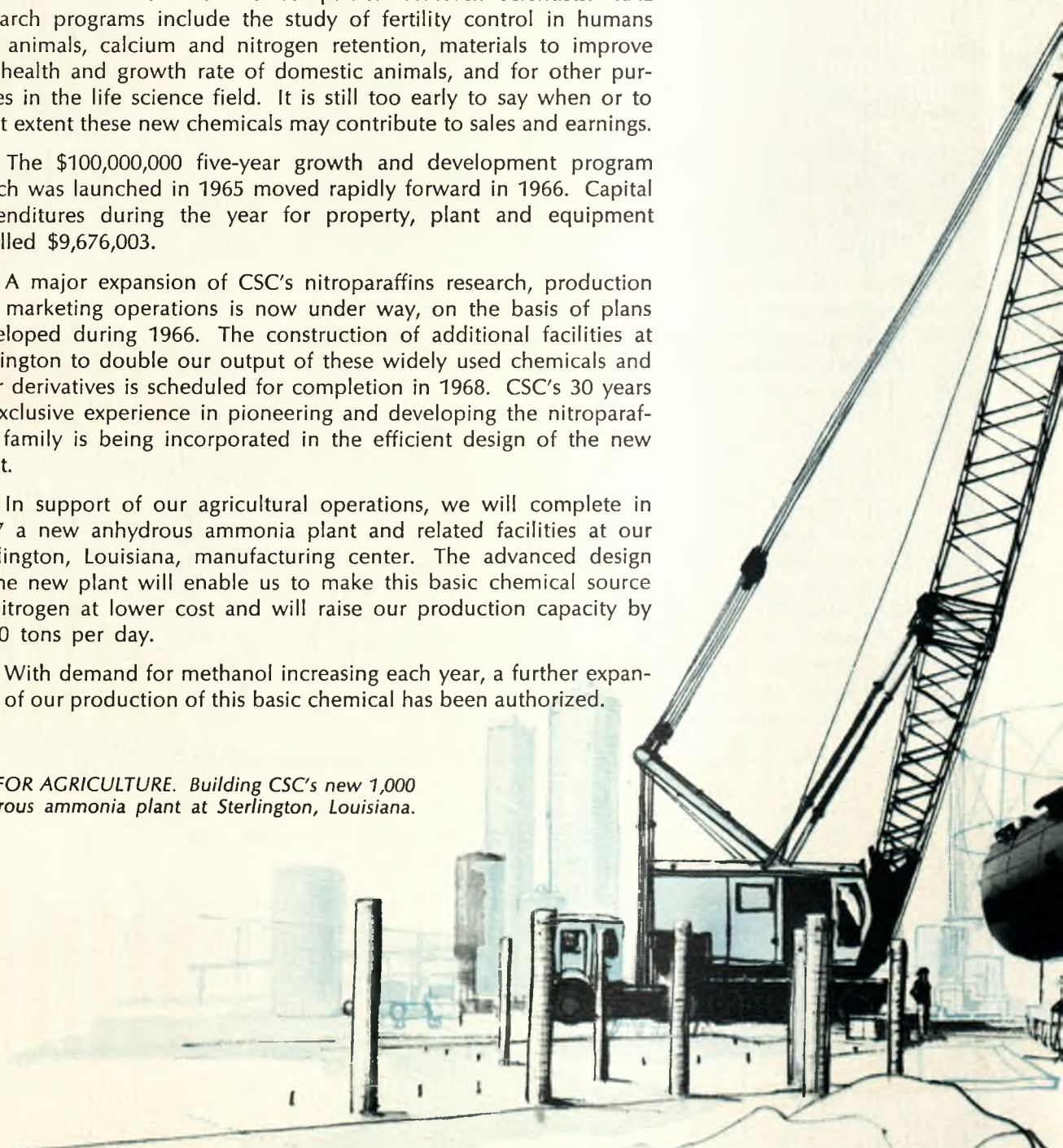
The \$100,000,000 five-year growth and development program which was launched in 1965 moved rapidly forward in 1966. Capital expenditures during the year for property, plant and equipment totalled \$9,676,003.

A major expansion of CSC's nitroparaffins research, production and marketing operations is now under way, on the basis of plans developed during 1966. The construction of additional facilities at Sterlington to double our output of these widely used chemicals and their derivatives is scheduled for completion in 1968. CSC's 30 years of exclusive experience in pioneering and developing the nitroparaffins family is being incorporated in the efficient design of the new plant.

In support of our agricultural operations, we will complete in 1967 a new anhydrous ammonia plant and related facilities at our Sterlington, Louisiana, manufacturing center. The advanced design of the new plant will enable us to make this basic chemical source of nitrogen at lower cost and will raise our production capacity by 1,000 tons per day.

With demand for methanol increasing each year, a further expansion of our production of this basic chemical has been authorized.

MORE NITROGEN FOR AGRICULTURE. Building CSC's new 1,000 ton per day anhydrous ammonia plant at Sterlington, Louisiana.



BASIC POSITION. Drilling more CSC natural gas wells to meet raw material needs of our expanding operations.



Commercial Solvents' U. S. and world thermal carbon black markets are being widened through the output of additional production facilities completed in 1966, and the construction of a new unit which will come on stream in 1967.

Additional chemical derivatives facilities were completed during 1966 at our Terre Haute, Indiana, plant, and an expansion of related operations at Sterlington is scheduled for completion in 1967.

The expansions at Sterlington will have the benefits of natural gas produced by our Louisiana and Navarro Gas Production Company Divisions for use as a principal raw material.

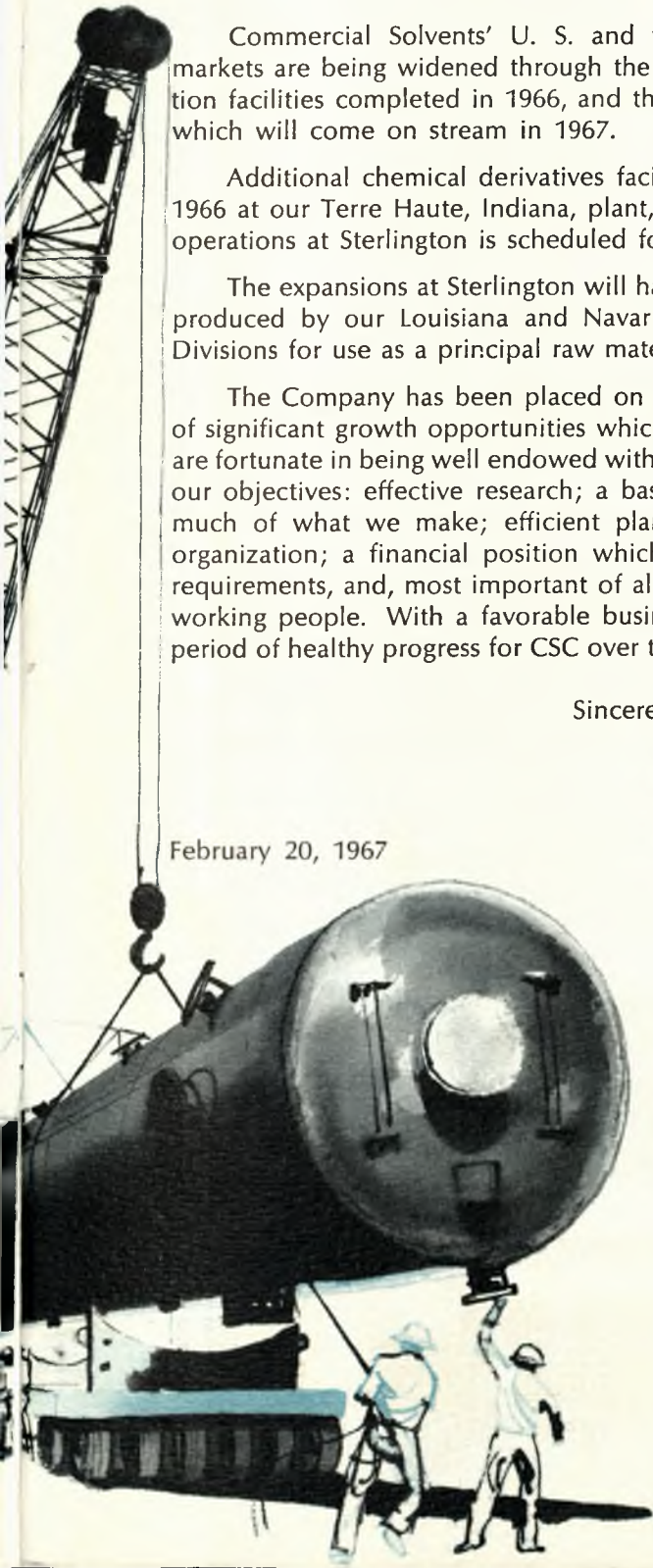
The Company has been placed on course to take full advantage of significant growth opportunities which lie immediately ahead. We are fortunate in being well endowed with the assets we need to achieve our objectives: effective research; a basic raw materials position for much of what we make; efficient plants; an aggressive marketing organization; a financial position which is adequate to our growth requirements, and, most important of all, qualified, enthusiastic, hard working people. With a favorable business climate, we anticipate a period of healthy progress for CSC over the next several years.

Sincerely,

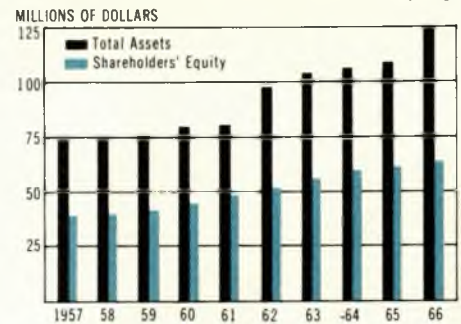
A. C. Wheeler

Chairman of the Board

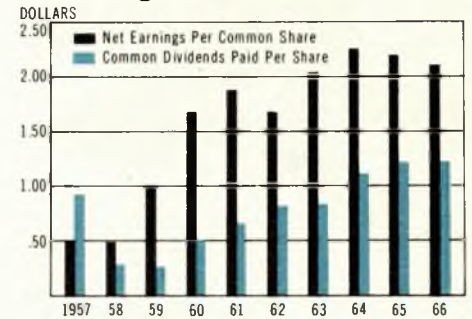
February 20, 1967



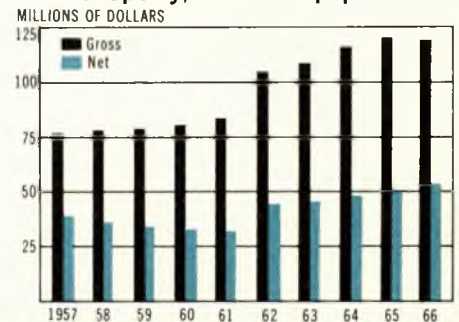
Total Assets & Shareholders' Equity



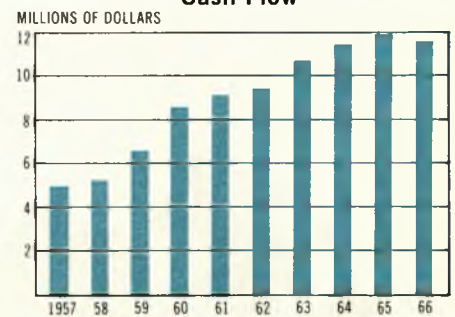
Net Earnings & Common Stock Dividends



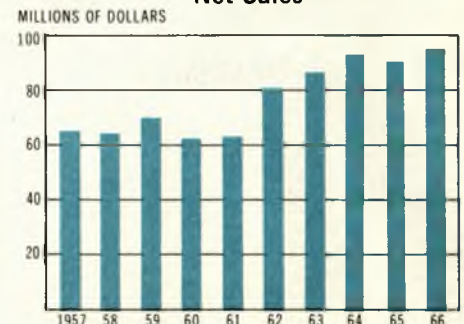
Property, Plant & Equipment



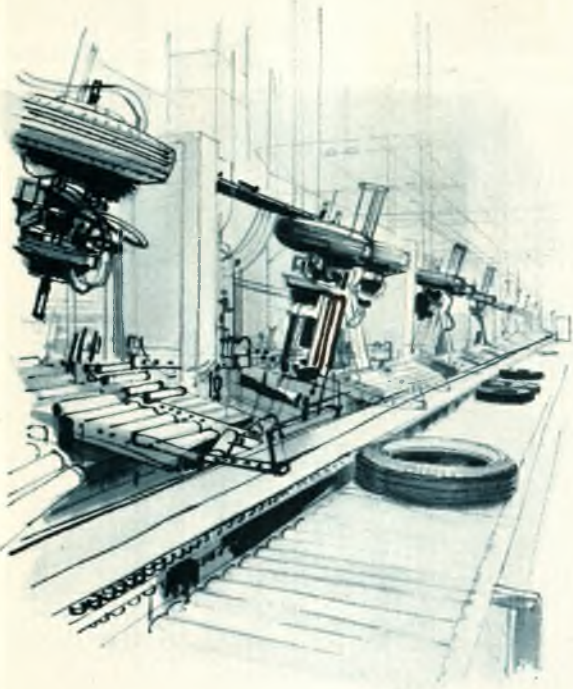
Cash Flow



Net Sales



SAFER TRAVEL. Better bonded, longer wearing tires are among the hundreds of consumer products made with industrial chemicals from CSC.



1966 In Review

Broadening the Base for Progress

CSC's higher 1966 sales reflected increased volume in all product areas except methanol, where production capacity was the limiting factor. Earnings from most of these operations were correspondingly higher, with the decline in fertilizer profitability offsetting other profit gains.

While not up to expectation with respect to overall profit improvement, 1966 was a rewarding year in many ways. CSC's basic raw materials position for products made from natural gas, flexibility in directing our output into markets and products of strong customer demand, and the reactive speed inherent in our medium size were important competitive advantages. Reflecting the Company's continued harmonious relationship with employees, our 14 year record of no work stoppages at CSC plants was maintained during the year.

Chemicals for Agriculture — In 1966, our fertilizer business felt the effects of lower selling prices, discounting and other competitive practices.

During the year, CSC swung an increased portion of its anhydrous ammonia away from sales for direct application to the soil and into the production of chemical intermediates and end use products. This reflects our program for marketing nitrogen in many forms for industrial and agricultural applications. Year-end ammonia inventories were at a minimum. Sales of CSC ammonium nitrate fertilizers showed improvement, both in Hi-D® granular and in prilled forms. Larger quantities of high density prilled nitrate were available from new facilities in Marion, Illinois. Dri-Sol® solutions business continued at

MORE FOOD PRODUCTION. Farmers' use of CSC Hi-D® easy spreading ammonium nitrate fertilizer increases crop yields per acre.



HIGH PROTEIN. Antibiotic and vitamin feed supplements from CSC help to produce larger, healthier livestock, as well as poultry and more eggs.



levels comparable to the preceding year. Northwest Nitro-Chemicals broadened the distribution of its diversified line of fertilizers, including Nitro-cubes® ammonium nitrate, and Northwest Brand ammonium phosphate fertilizer and ammonium-nitrate-phosphate mixes. Northwest expects to benefit from the increasing demand for these products by farmers in its Canadian and U. S. marketing areas.

Our sales of the Baciferm® line of zinc bacitracin antibiotic feed supplements have been helped by the feed industry's widening interest in health and growth additives which do not leave significant residues in poultry and farm animal tissue. In the stabilized vitamins group, sales showed improvement, with prices firming at the year end. Feed supplement sales of choline chloride, the fat metabolism vitamin, increased with the introduction of higher potency formulations, but lower market prices restricted profit improvement.

In 1966, CSC continued to broaden its international animal nutrition operations in response to the need for more meat, poultry, eggs and other high protein foods. Our Mexican customers are served by Comsolmex, S.A., CSC's wholly-owned subsidiary in Mexico City. Catalisis, S.A., our Mexican affiliate in which CSC has a 40 percent interest, currently is constructing a choline chloride plant to supply the needs of Comsolmex and others. On the European continent, CHEM-SYNA, GmbH, a joint venture of CSC and Parke, Davis & Company, is marketing a line of poultry and animal nutrition products including feed supplements to customers in Germany, Austria and Switzerland.

Pesticides, including Dilan®, metaldehyde and ethyl formate, were marketed for the selective control of crop pests in various parts of the U. S. and other countries. A number of other CSC chemicals were utilized during the year by makers of herbicides and insecticides.



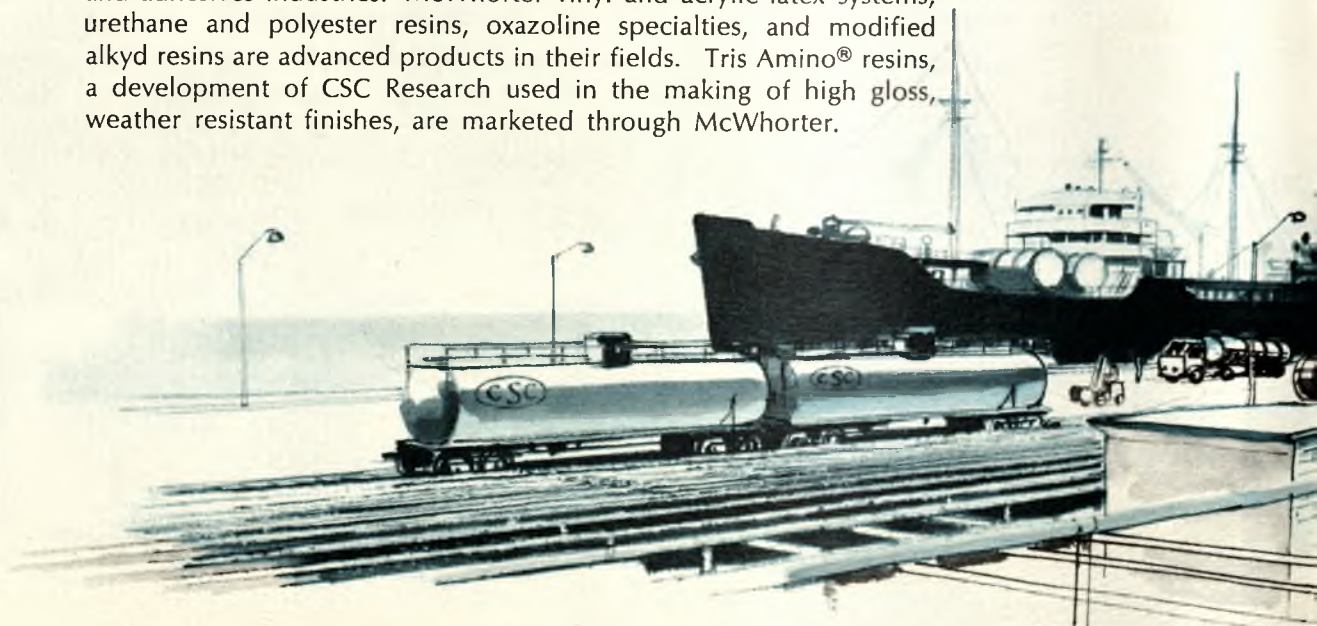
TESTING BETTER PAINTS. Longer lasting, easy-to-use paints and other protective coatings are made with CSC methanol and nitroparaffins, and with resins from our McWhorter Division.

Chemicals for Industry — CSC is a major producer and marketer of methanol, a widely used industrial chemical which finds its way into thousands of products for home, farm and industry use. Wood stains, plastics, adhesives, gasoline additives and solvents are typical end use products made with methanol. High levels of U. S. industrial production created an increased demand for this basic chemical. Prices, while firm, remained at levels below those of the early 1960's.

The methylamines, a group of chemical intermediates derived from methanol and ammonia, continued to find their best markets in growth industries. Manufacturers of man-made fibers, detergents, animal feed supplements, pesticides, and rubber chemicals utilize methylamines in their production processes.

Sales of nitroparaffins and derivatives continued their profitable advance as CSC showed more customers how these chemicals meet the needs of their new process technology. Industrial areas making increased use of the nitroparaffins include high energy release, textiles, pharmaceuticals, printing and the newer protective coatings.

A promising area of our business is the McWhorter Chemicals Company Division, producer of high quality resins for the coatings and adhesives industries. McWhorter vinyl and acrylic latex systems, urethane and polyester resins, oxazoline specialties, and modified alkyd resins are advanced products in their fields. Tris Amino® resins, a development of CSC Research used in the making of high gloss, weather resistant finishes, are marketed through McWhorter.



The industrial explosives business of our U. S. Powder Company Division made noteworthy progress in 1966. Nitro-carbo-nitrate products and the dynamite and permissibles group moved ahead in contribution to sales and profits. Nitrogen based explosives are a good example of an area in which CSC has a basic position for what we make and market. Our Louisiana and Navarro Gas Production Divisions extract natural gas used as the raw material for basic and intermediate chemicals, which U. S. Powder makes into end products for mining, seismographic exploration, quarrying and construction.

Thermax® and P-33® thermal carbon blacks produced by the Theratomic Carbon Company Division in pelletized and powdered form are used extensively in the manufacture of belting, hose, tires and other rubber goods, and polyethylene wire coatings. The "clean" characteristics of these thermal blacks were developed by CSC Research and have broadened their usefulness. They sold in substantial volume to a world market during 1966.

Commercial Solvents de Mexico, S.A. de C. V., is now conducting CSC's industrial chemicals business in that country, with Catalisis, S.A., producing some products for these markets. CSC products are sold in other Latin American nations, Europe and elsewhere through our export function, whose agents represent us in 56 countries.

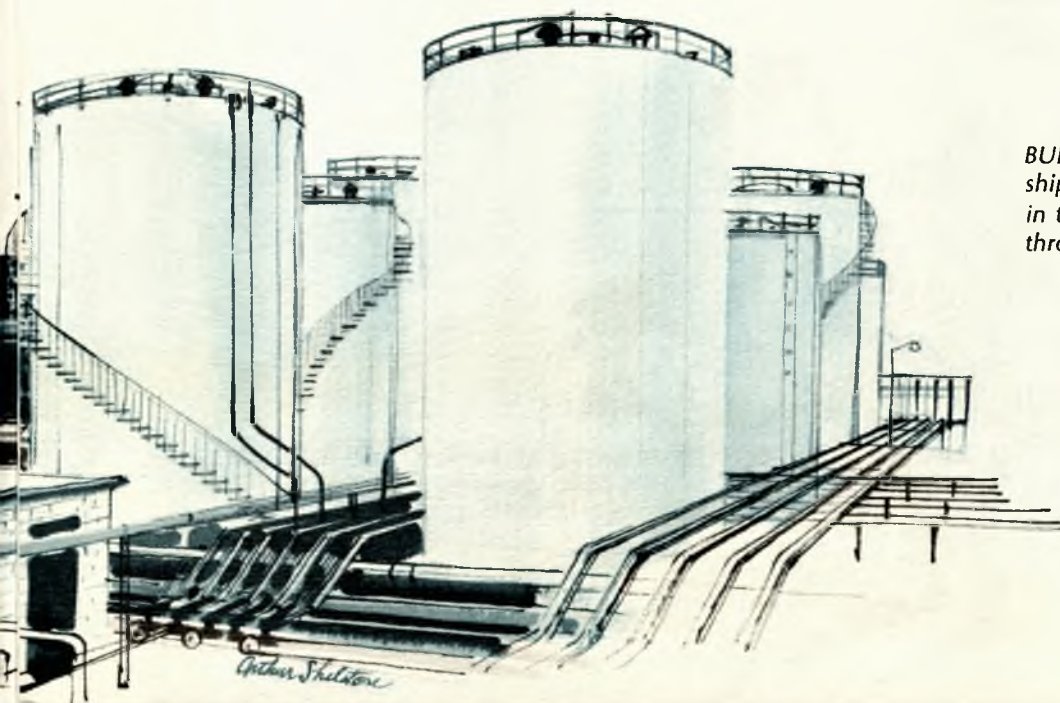
Pharmaceuticals and Related Products — This marketing area, while not presently as big as other major parts of our business, continues to be a dynamic part of CSC's capability and potential.

In the pharmaceutical group, CSC's zinc form of the antibiotic bacitracin continues to be popular with manufacturers of ethical and proprietary products as an effective ingredient in preparations for the treatment of skin irritation. Cycloserine, an antibiotic developed by CSC Research for the treatment of tuberculosis and certain genito-urinary tract infections, is marketed for prescription use through the pharmaceutical house of Eli Lilly & Company.

Istituto Chemioterapico Italiano, S.p.A., Milan, Italy-based CSC pharmaceutical subsidiary, increased sales and profits in 1966. Istituto products include ethical pharmaceuticals for the treatment of cardio-



PROTECTED. Her cut finger will heal faster without infection, thanks to prompt use of a first aid ointment containing zinc bacitracin from CSC.



BULK CHEMICAL MARKETING. Large volume shipments of CSC chemicals are distributed in the U. S. and many other countries through deep water terminal facilities.

vascular, hepatic and gastro-intestinal matters, as well as products used in making pharmaceuticals such as sorbitol and mannitol. Società Hoffmann, p.A., CSC's subsidiary in Rome, markets antibiotics, vitamins, hormones and cardiovascular preparations. The two companies sell pharmaceuticals and fine chemicals in countries of the European Common Market and other areas of the world. They provide CSC with a coordinated base of pharmaceutical research and development, manufacturing and sales operations in Europe.

An increasing volume of CSC products was utilized in drug, cosmetics, food and related fields during 1966. Among these are hexetidine, an anti-bacterial agent; nitroethane, the basic chemical for an important blood pressure depressant; monomethylamine, used in the synthesis of certain pharmaceuticals; ethyl alcohol, butyl stearate and other items used in making soaps, hairsprays, and cosmetics, and monosodium glutamate, a flavor enhancer.

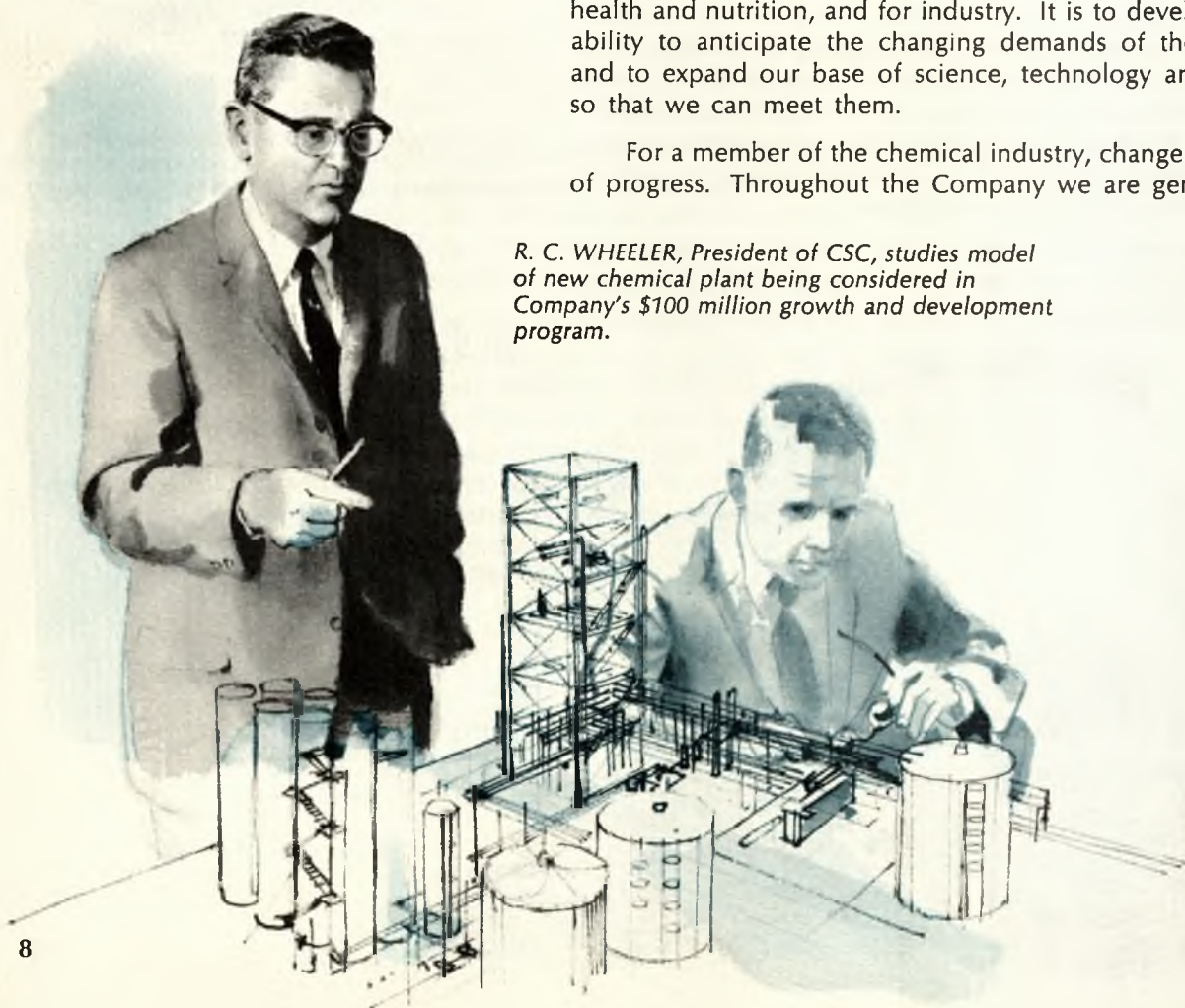
In Summary

The Challenge of Tomorrow

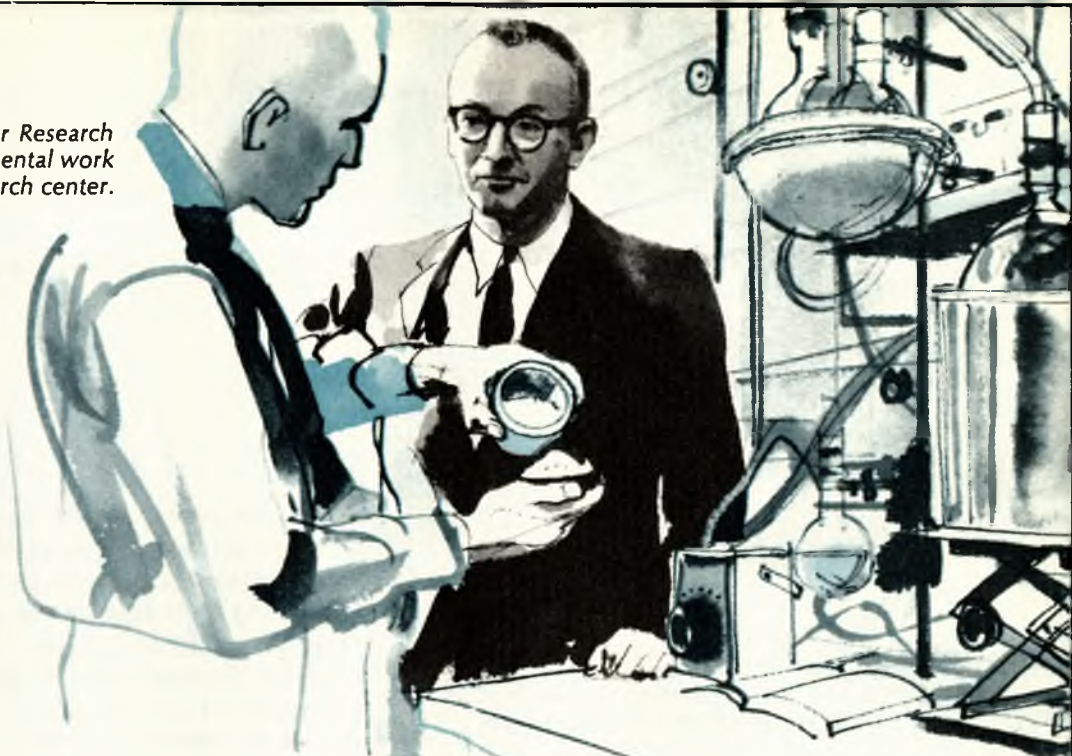
The challenge of tomorrow for CSC and its people is clear. It is to build further and faster on the Company's established position in the three broad areas of our business: products for agriculture, for health and nutrition, and for industry. It is to develop the Company's ability to anticipate the changing demands of these business areas and to expand our base of science, technology and marketing skills so that we can meet them.

For a member of the chemical industry, change is the raw material of progress. Throughout the Company we are generating change in

R. C. WHEELER, President of CSC, studies model of new chemical plant being considered in Company's \$100 million growth and development program.



DR. G. W. McMILLAN, Vice President for Research and Development, discusses experimental work at CSC's Terre Haute, Indiana, research center.



specific directions. The emphasis which CSC places on research and development as a vital source of useful new principles, technology, and products is reflected in a 42 percent increase in expenditures for these purposes over the past five years.

CSC is currently engaged in the largest growth and development period in its 47-year history. With internally generated funds providing the principal future support for this program, the Company is in a position financially, as well as in other ways, to continue its ambitious \$100,000,000 growth program.

Supplying enough to eat for the world's growing population is today a critical international problem, particularly for the U. S., Canada, and other principal food producing nations. In building on our base of operations for agriculture, CSC research scientists are investigating a number of interesting new animal nutrition approaches to the more efficient conversion of feed grains into high protein foodstuffs. We are working on better ways for the farmer to increase his farm management efficiency through the use of plant foods, especially in their application for grain and fiber crops.



W. W. JACKSON, Vice President, Marketing, arrives at another marketing area to increase sales of CSC's expanding chemical production.



J. F. DUDLEY, Engineering Vice President, checks construction of a new production unit for making advanced chemistry products from natural gas.

In capitalizing on the strength of our industrial chemical operations, we are studying the possibility of further expanding our production of established chemicals for which the demand is growing. We are looking to current and future areas of industrial growth where the advanced chemistry of such CSC products as the nitroparaffins can meet the demands of new markets. It is in these areas that CSC is finding useful applications for the vinyl polymers emerging from our oxazoline chemistry research, and for new manufacturing techniques based on synthesis gas developments, pyrolysis and nitration studies.

The challenging opportunity presented by the RAL's stems from CSC's substantial investments of people and money in research. Among the many scientific disciplines engaged in this investigation are biochemistry, organic and analytical chemistry, pharmacology, endocrinology, chemical engineering, medicine and veterinary medicine. Growth and metabolic studies are proceeding with favorable results, and interesting differences have been found in the functions and effect of the RAL's tested. The synthesis of certain RAL compounds is generating possibilities which will be pursued in the development of useful products and the design of better production processes.

W. S. LEONHARDT, Financial Vice President, plans for the funding of CSC's corporate growth program.

These are the highlights of a company and its people on the move, generating creative change for the improvement of man's condition through science and technology. In the words of CSC President Robert C. Wheeler, "This is the work of people organized to do today's job, and geared for the challenge of tomorrow."



Ten Year Summary

Operating Record

(Amounts, other than per share figures, expressed in thousands)

Year	Net Sales	Cash Flow(a)	Depreciation, Depletion & Amortization	Net Earnings		Cash Dividends Paid Per Common Share
				Amount	Per Common Share(b)	
1957	\$65,932	\$ 4,955	\$3,505	\$1,450	\$.50	\$.925
1958	64,728	5,158	3,740	1,418	.48	.275
1959	70,381	6,531	3,680	2,851	.99	.25
1960	62,337	8,511	3,671	4,840	1.67	.50
1961	63,841	9,024	3,519	5,505	1.88	.65
1962(c) . . .	80,681	9,410	4,466	4,944	1.68	.80
1963	86,199	10,702	4,718	5,984	2.03	.825
1964	93,132	11,449	4,546	6,903	2.24	1.10
1965	90,764	11,869	5,123	6,746	2.19	1.20
1966	95,356	11,500	5,221	6,279	2.05	1.20

Financial Position

(Amounts expressed in thousands)

Year	Total Assets	Current Assets	Current Liabilities	Working Capital	Property, Plant & Equipment		Long-term Debt	Shareholders' Equity
					Gross	Net		
1957	\$ 73,460	\$30,358	\$ 8,942	\$21,416	\$ 76,277	\$39,063	\$21,880	\$38,617
1958	73,958	32,770	9,605	23,165	77,306	36,709	20,320	39,282
1959	76,388	38,662	11,299	27,363	78,338	34,351	18,760	41,447
1960	79,566	41,482	10,722	30,760	80,760	33,102	17,200	44,889
1961	80,182	37,651	9,513	28,138	83,068	32,180	15,640	48,783
1962(c) . . .	97,690	41,415	8,905	32,510	104,008	44,683	28,749	51,976
1963	103,617	46,699	12,303	34,396	108,912	45,838	26,264	55,780
1964	106,780	47,103	12,758	34,345	115,949	48,806	23,746	59,344
1965	108,572	48,757	15,407	33,350	120,367	49,250	21,073	60,895
1966	125,030	61,412	12,866	48,546	119,287	53,297	38,064	63,680

Employees and Stockholders

Year	Number of Employees	Wages & Salaries	Cost of Pensions & Other Benefits	Assets Employed for Each Employee	Number of Common Shareholders At Year End	Average Number of Common Shares Outstanding
1957	2,140	\$11,222,595	\$ 993,352	\$34,327	19,608	2,898,390
1958	2,126	11,530,397	1,016,452	34,787	18,406	2,938,599
1959	2,036	11,680,749	1,051,846	37,519	17,158	2,892,206
1960	1,971	11,480,373	1,005,545	40,368	17,917	2,891,278
1961	1,945	11,771,310	1,033,826	41,224	17,331	2,920,649
1962(c) . . .	2,301	13,615,773	1,278,869	42,456	17,001	2,946,632
1963	2,386	14,511,551	1,312,609	43,427	16,115	2,940,795
1964	2,346	15,340,986	1,589,154	45,516	15,035	2,985,856
1965	2,313	15,624,747	1,599,250	46,940	14,500	2,984,819
1966	2,413	16,067,664	1,687,421	51,729	16,312	2,993,100

(a) Net earnings, depreciation, depletion and amortization.

(b) Based on average number of shares outstanding during the year.

(c) Beginning in 1962, data include Northwest Nitro-Chemicals Ltd.

COMMERCIAL SOLVENTS CORPORATION

Assets

	December 31,	
	1966	1965
CURRENT ASSETS		
Cash including time deposits	\$ 6,755,425	\$ 9,251,636
U.S. Government and other securities, at cost approximating market	19,591,237	2,000,533
Accounts and notes receivable (less allowance for doubtful accounts, 1966 — \$252,952; 1965 — \$262,503)	16,894,114	18,455,426
Inventories, at lower of cost or market		
Finished products and materials in process	9,937,156	11,314,846
Raw materials and supplies	6,978,805	6,954,584
Prepaid expenses	1,254,917	779,934
Total Current Assets	<u>61,411,654</u>	<u>48,756,959</u>
INVESTMENTS AND NON-CURRENT RECEIVABLE		
Investments in non-consolidated foreign subsidiaries, at cost	4,551,628	4,846,823
Other investments	359,614	296,139
Non-current account receivable	3,700,000	3,700,000
Total Investments and Non-current Receivable	<u>8,611,242</u>	<u>8,842,962</u>
PROPERTY, PLANT AND EQUIPMENT, at cost		
Land	783,207	698,214
Plant, equipment and gas properties	118,503,651	119,668,408
	119,286,858	120,366,622
Less accumulated depreciation, depletion and amortization	65,989,629	71,116,853
Net Property, Plant and Equipment	<u>53,297,229</u>	<u>49,249,769</u>
PATENTS AND OTHER INTANGIBLES, at amortized cost	692,433	982,731
DEFERRED CHARGES	1,017,636	739,291
	<u>\$125,030,194</u>	<u>\$108,571,712</u>

SEE ACCOMPANYING NOTES TO FINANCIAL STATEMENTS.

CONSOLIDATED BALANCE SHEET

Liabilities and Shareholders' Equity

	December 31,	
	1966	1965
CURRENT LIABILITIES		
Accounts and notes payable	\$ 5,639,558	\$ 8,109,772
Accrued Federal and Foreign income taxes	2,898,838	2,766,053
Other accrued liabilities	1,842,107	2,046,127
Current installments on long-term debt	2,485,000	2,485,000
Total Current Liabilities	<u>12,865,503</u>	<u>15,406,952</u>
LONG-TERM DEBT AND DEFERRED TAXES		
Long-term debt, less current installments	38,063,800	21,072,750
Deferred Federal and Foreign income taxes	10,136,145	10,918,640
Total Long-term Debt and Deferred Taxes	<u>48,199,945</u>	<u>31,991,390</u>
MINORITY INTEREST IN SUBSIDIARY	285,219	278,109
SHAREHOLDERS' EQUITY		
Preferred Stock, \$20 par value, authorized 1,000,000 shares		
Series A Preferred Stock, 4.5% Cumulative Convertible, redeemable at \$21 per share beginning January 1, 1969 through December 31, 1970, \$20.50 through December 31, 1973 and \$20 thereafter		
Authorized — 273,400 shares		
Issued — 155,673 shares in 1966; 233,607 shares in 1965	3,113,460	4,672,140
Common Stock, \$1 par value		
Authorized — 6,000,000 shares		
Issued — 3,087,923 shares in 1966; 3,032,887 shares in 1965	7,044,497	6,989,461
Additional paid-in capital	8,047,429	6,285,461
Earnings retained in business	47,555,549	45,029,607
	<u>65,760,935</u>	<u>62,976,669</u>
Less treasury common stock, at cost — 77,400 shares	2,081,408	2,081,408
Total Shareholders' Equity	<u>63,679,527</u>	<u>60,895,261</u>
	<u>\$125,030,194</u>	<u>\$108,571,712</u>

COMMERCIAL SOLVENTS CORPORATION

Consolidated Earnings and Summary of Earnings Retained in Business

	Year Ended December 31,	
	1966	1965
REVENUES		
Net sales	\$95,355,580	\$90,763,924
Other income (net)	1,764,386	1,014,967
	<u>97,119,966</u>	<u>91,778,891</u>
COSTS AND EXPENSES		
Cost of sales	67,763,367	63,082,474
Selling, research and administrative expenses	11,426,820	11,074,222
Depreciation, depletion and amortization	5,220,809	5,122,853
Interest on borrowings	1,538,354	997,753
	<u>85,949,350</u>	<u>80,277,302</u>
EARNINGS BEFORE FEDERAL AND FOREIGN INCOME TAXES AND MINORITY INTEREST	11,170,616	11,501,589
FEDERAL AND FOREIGN INCOME TAXES	4,866,568	4,670,981
MINORITY INTEREST IN EARNINGS OF SUBSIDIARY	24,828	84,955
NET EARNINGS FOR YEAR	6,279,220	6,745,653
EARNINGS RETAINED IN BUSINESS AT BEGINNING OF YEAR	45,029,607	42,082,429
	<u>51,308,827</u>	<u>48,828,082</u>
DIVIDENDS PAID TO SHAREHOLDERS		
Preferred stock (\$.90 per share)	157,365	213,327
Common stock (\$1.20 per share)	3,595,913	3,585,148
	<u>3,753,278</u>	<u>3,798,475</u>
EARNINGS RETAINED IN BUSINESS AT END OF YEAR	<u>\$47,555,549</u>	<u>\$45,029,607</u>

Consolidated Statement of Source and Application of Funds

SOURCE OF FUNDS		
Net earnings	\$ 6,279,220	\$ 6,745,653
Depreciation, depletion and amortization	5,220,809	5,122,853
Proceeds from sale of 4½ % Convertible Subordinated Debentures	19,750,000	—
Proceeds from exercise of stock options	261,897	249,290
Proceeds from disposal of property, plant and equipment	674,919	391,199
Other—net	230,025	343,267
Total	<u>\$32,416,870</u>	<u>\$12,852,262</u>
APPLICATION OF FUNDS		
Dividends paid to shareholders	\$ 3,753,278	\$ 3,798,475
Expenditures for property, plant and equipment	9,676,003	5,951,571
Payments on long-term debt	2,485,000	2,485,000
Principal amount of subsidiary's Subordinate Debentures repurchased	523,950	188,000
Cost of treasury stock purchased	—	1,644,918
Deferred Federal and Foreign income taxes	782,495	(220,946)
Increase (decrease) in working capital	15,196,144	(994,756)
Total	<u>\$32,416,870</u>	<u>\$12,852,262</u>

SEE ACCOMPANYING NOTES TO FINANCIAL STATEMENTS.

Notes to Financial Statements

Principles of Consolidation and Investments in Subsidiaries

The consolidated financial statements include the accounts of all wholly-owned subsidiaries and Northwest Nitro-Chemicals Ltd. The Company's ownership of Northwest's common stock was approximately 95% on December 31, 1966.

The accounts of consolidated foreign subsidiaries are expressed in U.S. dollars at appropriate rates of exchange.

The investment in non-consolidated foreign subsidiaries represents a 51% interest in Italian pharmaceutical companies. The Company's equity in the 1966 net earnings of these subsidiaries was \$115,016 and its equity in their net assets at December 31, 1966 was \$2,955,079. During 1966 dividends totalling \$129,350 were received from these subsidiaries and included in Other income (net).

Long-term Debt

Long-term debt outstanding at December 31, 1966 is shown in the following summary:

	Current Installments	Long-term
Commercial Solvents Corporation —		
3¾% notes payable to insurance companies in annual installments through 1972 . . .	\$1,560,000	\$7,840,000
4½% Convertible Subordinated Debentures due July 1, 1991 (annual sinking fund payments of \$1,000,000 in 1977 through 1990; and \$6,000,000 due at maturity)	—	20,000,000
	<u>1,560,000</u>	<u>27,840,000</u>
Northwest Nitro-Chemicals Ltd. —		
5¾% First Mortgage Serial Bonds of 1960 payable in annual installments through 1970	925,000	3,468,750
Subordinate Debentures of 1960 due June 30, 1979 bearing interest at 6% through June 30, 1970 and thereafter at 6½%, redeemable at 105% to June 30, 1970 and at reducing amounts thereafter (exclusive of \$1,744,950 principal amount owned by Commercial Solvents Corporation)	—	6,755,050
	<u>925,000</u>	<u>10,223,800</u>
	<u>\$2,485,000</u>	<u>\$38,063,800</u>

The loan agreements covering the 3¾% notes payable to insurance companies impose certain restrictions on the declaration of dividends other than stock dividends.

The 4½% Convertible Subordinated Debentures due July 1, 1991 are convertible into common stock of the Company at \$68 per share and 294,118 shares of common stock were reserved for this purpose at December 31, 1966. The Debentures are subject to redemption at the option of the Company at prices ranging from 104½% of the principal amount through June 30, 1967 to 100% of the principal amount on July 1, 1986 and thereafter. The Indenture relating to the Debentures imposes certain restrictions, including among others, those pertaining to the payment of dividends other than stock dividends.

The 5¾% First Mortgage Serial Bonds of 1960 of Northwest Nitro-Chemicals Ltd. are secured by all of its property, plant and equipment and a first floating charge on all of its other property and assets. The mortgage bonds, subordinate debentures and preferred stock of Northwest contain a number of restrictions, including among others, those pertaining to the payment of dividends.

At December 31, 1966, \$6,598,000 of consolidated earnings retained in business was free of the restrictions contained in the Company's loan agreements.

Shareholders' Equity

The Series A Preferred Stock, 4.5% cumulative convertible, has voting rights and is convertible on the basis of .597 of a share of common stock for each one share of such preferred stock. During 1966, 77,934 shares of Series A Preferred Stock were converted into 46,460 shares of common stock. In this connection, \$1,508,647, representing the excess of the par value of the Series A Preferred Stock over the par value of the common stock issued in conversion thereof and the market value of fractional shares, was credited to additional paid-in capital.

At December 31, 1966, 92,939 shares of common stock were reserved for conversion of the outstanding Series A Preferred Stock.

Stock Options

At December 31, 1965, options to purchase 45,063 common shares at prices varying from \$20.38 to \$33.00 per share were held by certain key executive employees. During 1966 options for 8,576 common shares were exercised at prices varying from \$20.38 to \$30.63 per share, an aggregate of \$261,897 of which \$253,321, representing the excess of option prices over par value of common stock issued, was credited to additional paid-in capital. Options granted prior to 1964 were at a price in excess of 95% of the market value of the shares when the options were granted. Options granted in 1964 were at a price equal to 100% of the market value of the shares when granted.

At December 31, 1966, there were outstanding options to purchase 36,487 common shares, all of which were exercisable, at prices varying from \$20.38 to \$33.00 per share.

Notes to Financial Statements (Continued)

Non-current Account Receivable

The non-current account receivable of \$3,700,000 was set up in 1962 as a receivable from the bankrupt estate of Estes based on the estimated assets of the estate at that time and the terms of the compromise agreement for the liquidation of the estate which was approved by the Bankruptcy Court.

The amount which ultimately will be distributable by the Trustee of the estate will be determined in part by the extent to which the purchaser of most of the assets will be able to meet its commitments under its purchase money note to the Trustee, and in part by the outcome of a number of disputed claims, including litigation instituted in 1964 by the Trustee against Commodity Credit Corporation. To date nothing has been paid to the credi-

tors. Pending determination of numerous claims involving complicated questions of law and fact, an allowance for possible losses is not deemed necessary at this time.

The Company is the only creditor of the estate whose claim has been approved by the court to date. Pursuant to the compromise agreement under which its claim was so approved, the Company's liens on the assets are being held for the benefit of all creditors of the estate.

Uncompleted Authorizations

At December 31, 1966, \$41,000,000 of the cost of expansion and improvement projects authorized by the Company's Directors was unexpended. Amounts expended on such projects are included in Property, Plant and Equipment.

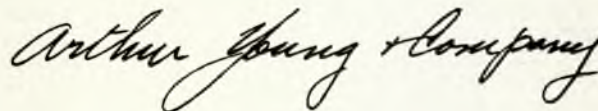
ARTHUR YOUNG & COMPANY

CERTIFIED PUBLIC ACCOUNTANTS

The Board of Directors and Shareholders
COMMERCIAL SOLVENTS CORPORATION

We have examined the accompanying consolidated balance sheet of Commercial Solvents Corporation and subsidiaries at December 31, 1966, the related statement of consolidated earnings and summary of earnings retained in business and the consolidated statement of source and application of funds for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the statements mentioned above present fairly the consolidated financial position of Commercial Solvents Corporation and subsidiaries at December 31, 1966, the consolidated results of their operations and the source and application of their consolidated working capital for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.



New York, N. Y.
February 3, 1967

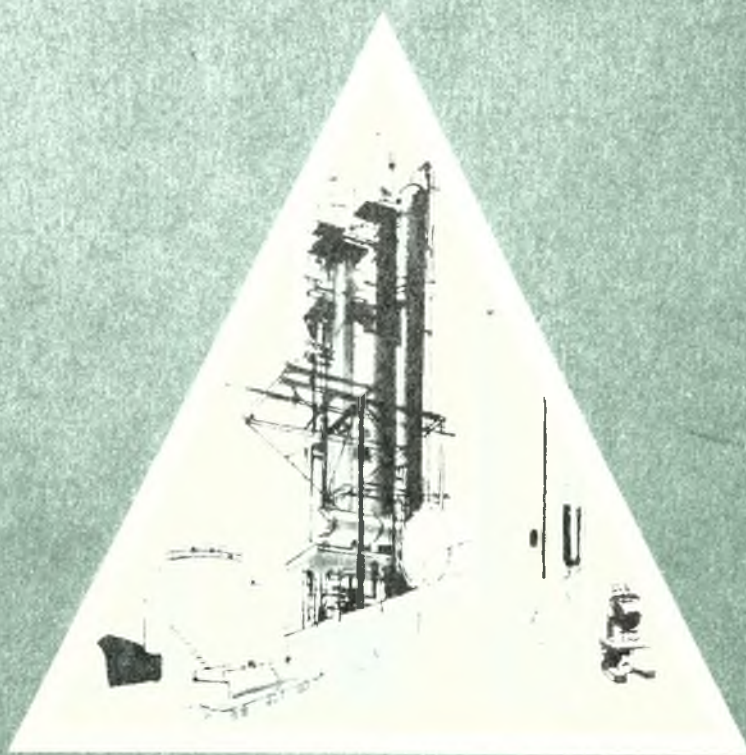
COMMERCIAL SOLVENTS CORPORATION

General Offices: 260 Madison Avenue, New York, N. Y. 10016

ANNUAL REPORT 1966

COMMERCIAL SOLVENTS CORPORATION

ANNUAL REPORT 1967



COMMERCIAL SOLVENTS CORPORATION

Board of Directors

JEREMIAH MILBANK, JR., *Chairman*
(*Chairman, Executive Committee*)

WALTER C. BERGER

AUSTIN S. IGLEHEART*

W. WARD JACKSON

WILLIAM S. LEONHARDT

G. HILMER LUNDBECK

GRAHAM W. McMILLAN

H. V. SHERRILL*

JOSEPH A. THOMAS

EMANUEL T. WEILER

MAYNARD C. WHEELER*

ROBERT C. WHEELER*

IVAN L. WILES

**Member of Executive Committee*

Maynard C. Wheeler resigned as Chairman December 31, 1967, and continues as a Director. Jeremiah Milbank, Jr., previously Vice Chairman, was elected Chairman at the Board Meeting of January 23, 1968.

Officers

JEREMIAH MILBANK, JR., *Chairman of the Board*

ROBERT C. WHEELER, *President & Chief Executive Officer*

J. FRED DUDLEY, *Vice President*

W. WARD JACKSON, *Vice President*

WILLIAM S. LEONHARDT, *Vice President*

GRAHAM W. McMILLAN, *Vice President*

THOMAS PESCOD, *Controller*

HOWARD B. DURBIN, *Secretary and Treasurer*

Transfer Agent

Chemical Bank New York Trust Company
20 Pine Street, New York, N. Y. 10015

Registrar

The Chase Manhattan Bank, N.A.
One Chase Manhattan Plaza, New York, N. Y. 10015

The annual meeting of shareholders will be held on April 4, 1968. A notice of the meeting, proxy statement and form of proxy will be sent to all shareholders shortly. It will assist the management in preparing for the meeting if shareholders who do not expect to attend the meeting in person will sign, date and return the proxy promptly.

Letter To Stockholders

Commercial Solvents Corporation's 1967 sales were \$94,780,404, as compared with \$95,355,580 for 1966. Consolidated net earnings were \$4,411,253, or \$1.42 per common share. For the preceding 12 months, CSC's consolidated net earnings were \$6,279,220 or \$2.05 per common share. Dividends paid to stockholders totaled \$3,759,651. Per share common stock dividends of \$1.20 and preferred stock dividends of 90 cents per share for 1967 were unchanged from the previous year. Holders of CSC debentures received interest totaling \$900,000 in 1967.

CSC was among the many companies that felt the sustained pressures of lower prices and higher costs during the year. Fertilizer markets were especially competitive. Other areas of our diversified operations, which include specialty chemicals for industry and products for nutrition and health, fared better by comparison.

The year 1967 saw the Company's completion of a large new ammonia plant in the last quarter, and major expansions of our thermal carbon black facilities. The chemical and explosives operations of Trojan Powder Company were acquired in the latter part of the year. Research on nitroparaffins and the RAL's was intensified. These steps were part of a corporate development program started in 1965 to achieve a more competitive position through acquisition, expanded research and construction of manufacturing facilities which operate at lower cost. Initial benefits of the program helped 1967 sales volume, but completion of a \$32 million segment of our growth program brought higher interest costs, start-up expenses and temporarily increased production costs resulting from the integration of new manufacturing units with existing ones.

Our new 1000-ton-per-day plant for making anhydrous ammonia, the basic chemical source of nitrogen for fertilizers and industrial use, was one of several that came on stream in 1967. Demand for fertilizers continued to rise throughout the year in the expected long-term growth trend, but the excess supply resulting from new production sharply affected market conditions in the agricultural chemicals industry, including both CSC and its Canadian fertilizer subsidiary, Northwest Nitro-Chemicals Ltd. Over 70 percent of our new output has been sold under long-term contracts to major companies. A growing portion of CSC ammonia is going into captive use for industrial and military products manufactured by CSC and its U. S. Powder and Trojan Divisions. The new plant is part of CSC's Sterlington, Louisiana, production complex, where much of our raw material and fuel needs are met with low cost natural gas drawn from Company owned and operated wells.

CSC has long been a major producer and marketer of methanol, a basic industrial chemical, and of many intermediate and end products made from it. Under a long-term

agreement, a large consumer will purchase a significant portion of the output of a new plant currently scheduled for completion in late 1969. Increased quantities of methanol will go into other CSC products for health, nutrition and industry.

Our output of nitroparaffins (NP's) is being substantially increased to supply our customers with these specialty chemicals and to meet CSC's growing captive requirements for making products used in high energy release, resins, coatings, adhesives and pharmaceutical fields. Extensive research work is going forward in new uses of nitroparaffins in these areas. In the national effort to combat contamination of our air, development work has indicated a potential new role for nitroparaffins as solvents in place of certain restricted materials in manufacturing processes.

The acquisition for cash on September 1, 1967, of the chemical and explosives assets of Trojan Powder Company broadened and extended our product lines for customers in a number of areas, including the resins, adhesives and coatings fields. In the high energy area, Trojan Powder products, together with those of our U. S. Powder Division, give CSC the broadest line of products available in the commercial explosives industry.

In the health and nutrition phases of our research and development program, several new products are emerging for animal use. In 1967 we filed a new drug application for one of the resorcylic acid lactones (RAL's), CSC's exclusive new chemical family. Tests have shown this compound to be effective in improving the growth rate and feed efficiency of cattle. During the year we filed three veterinary investigational drug applications for certain RAL's and antibiotics.

Areas of potential human use for RAL products continue to appear promising in our intensive laboratory research work. CSC and Merck & Co., Inc., discontinued a cooperative RAL program in August, 1967. Discussions are under way with a number of pharmaceutical companies regarding joint endeavors to develop RAL human use potentials.

Two new production units of our Thermatomic Carbon Company Division went into operation during the year. Thermal carbon blacks produced by this Division go into the production of rubber, plastic and other manufactured materials. Strikes in the automotive and rubber industries during 1967 temporarily affected the market for Thermatomic products.

Export operations in 1967 showed a heavier flow of CSC chemical specialty products to customers in Latin America, Western Europe and in Japan. Agricultural and industrial development in the international field is creating an increased market potential for many of our products. Operations were broadened with the on-schedule startup in September, 1967, of a new choline chloride plant by our Mexican affiliate, Catalisis, S.A., in which CSC holds a 40 percent interest.

In May, 1967, the Board of Directors assigned the duties of Chief Executive Officer to President Robert C. Wheeler.

After 45 years of distinguished service to CSC in many capacities, Maynard C. Wheeler submitted his resignation as Board Chairman effective December 31, 1967. The seven years he served as President was a major growth period for CSC. He continues as a member of the Board of Directors, on which he has served since 1950.

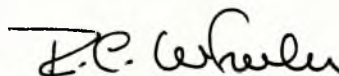
Jeremiah Milbank, Jr., Vice Chairman of the Board, was elected Chairman on January 23, 1968. He has been Chairman of the Executive Committee for 8 years and a Director since 1953.

In March, 1967, Howard B. Durbin, Secretary of the Corporation, was elected to the additional post of Treasurer. Thomas Pescod, Budget Director, was elected Controller, succeeding Anthony H. Braun, who assumed new duties relating to special corporate projects and long-term financing.

The employees of CSC, most of whom are stockholders through our Investment and Savings Plan, are showing great energy and enthusiasm in undertaking new projects and programs designed to improve the Company's profits. Their traditionally excellent relationships with the Company continued in 1967, and 95 percent of those eligible are participating in a new contributory pension plan that has recently been offered to plant payroll employees.

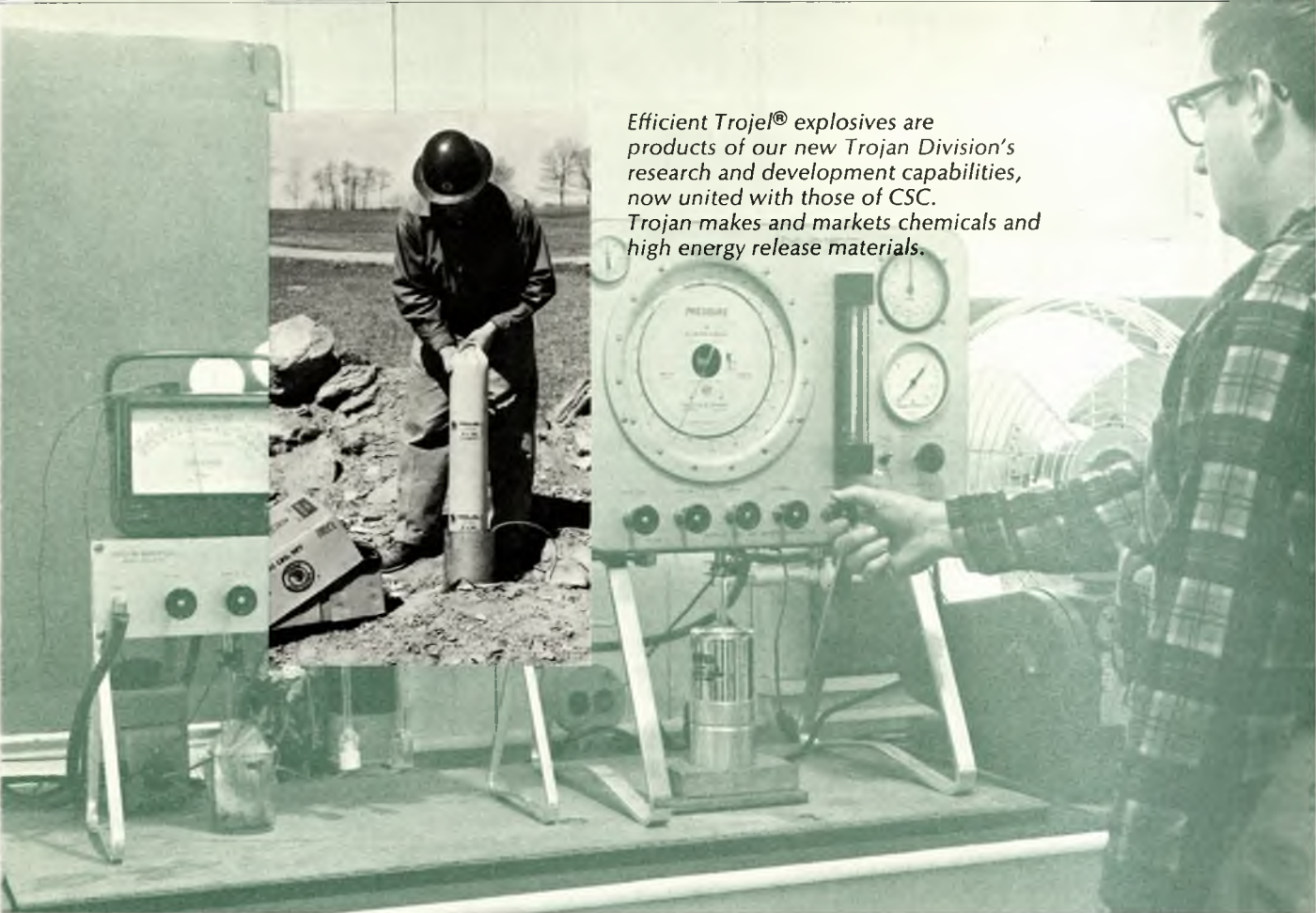
Advancement through research, diversification of markets, internal expansion of manufacturing facilities, and acquisition will continue to be major corporate objectives. The technology of modern chemistry is changing more rapidly than ever, and we intend to stay in the forefront of these developments. The skills of CSC people in all areas—research, marketing, manufacturing, engineering and finance—are being directed to achieving our objectives.

Sincerely,

A handwritten signature in dark ink, appearing to read "R.C. Wheeler". The signature is fluid and cursive, with a prominent "W" and "L".

ROBERT C. WHEELER
President

February 16, 1968



Efficient Trojel® explosives are products of our new Trojan Division's research and development capabilities, now united with those of CSC. Trojan makes and markets chemicals and high energy release materials.

Trojan Joins CSC

The nationwide chemicals and explosives operations of the Trojan Powder Company became part of CSC on September 1, 1967. Trojan's 800-man manufacturing, marketing and research organization is now functioning as a Division of our Company.

Trojan's operations broaden and extend production and markets in a number of areas of CSC's business, including that of our McWhorter Chemicals Division, producer of high quality resins for coatings and adhesives, and our U. S. Powder Division, producer of industrial and military explosives.

Among Trojan's chemical products are formaldehyde, pentaerythritol, polyols used in alkyd resins, synthetic drying oils, vinyl stabilizer applications and fire retardant coatings, organic nitrates used in special purpose fuels, inorganic chemicals used in the leather and

paper industries, and organic chemicals used in the photographic, protective coatings and plastics fields.

With the addition of Trojan's high energy release operations, CSC's products for the commercial explosives industry include materials made from nitrostarch (which was pioneered and developed by Trojan), ammonium nitrate, nitroglycerine, and certain nitroparaffins; U. S. Powder's Airbreaker line of compressed air energy release equipment; primers, and many other explosives equipment and accessory items.

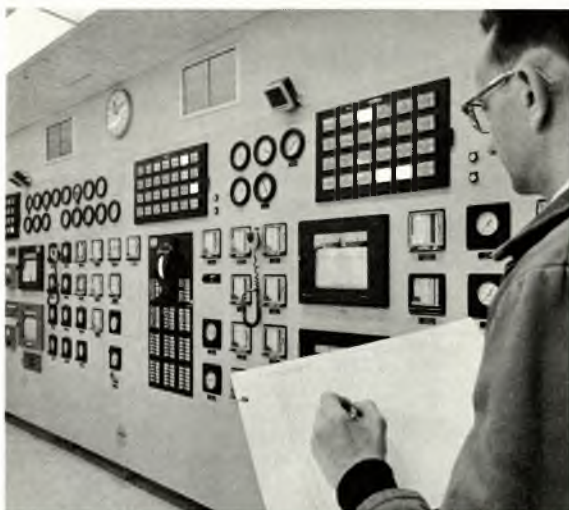
Headquarters for CSC's new Trojan Division are at Allentown, Pennsylvania. Production facilities include plants at Seiple, Pennsylvania, Wolf Lake, Illinois and Springville, Utah. Sales offices, warehousing and distribution facilities are located throughout the nation. A number of Trojan specialty chemicals are sold in overseas markets.

Ammonia Expansion

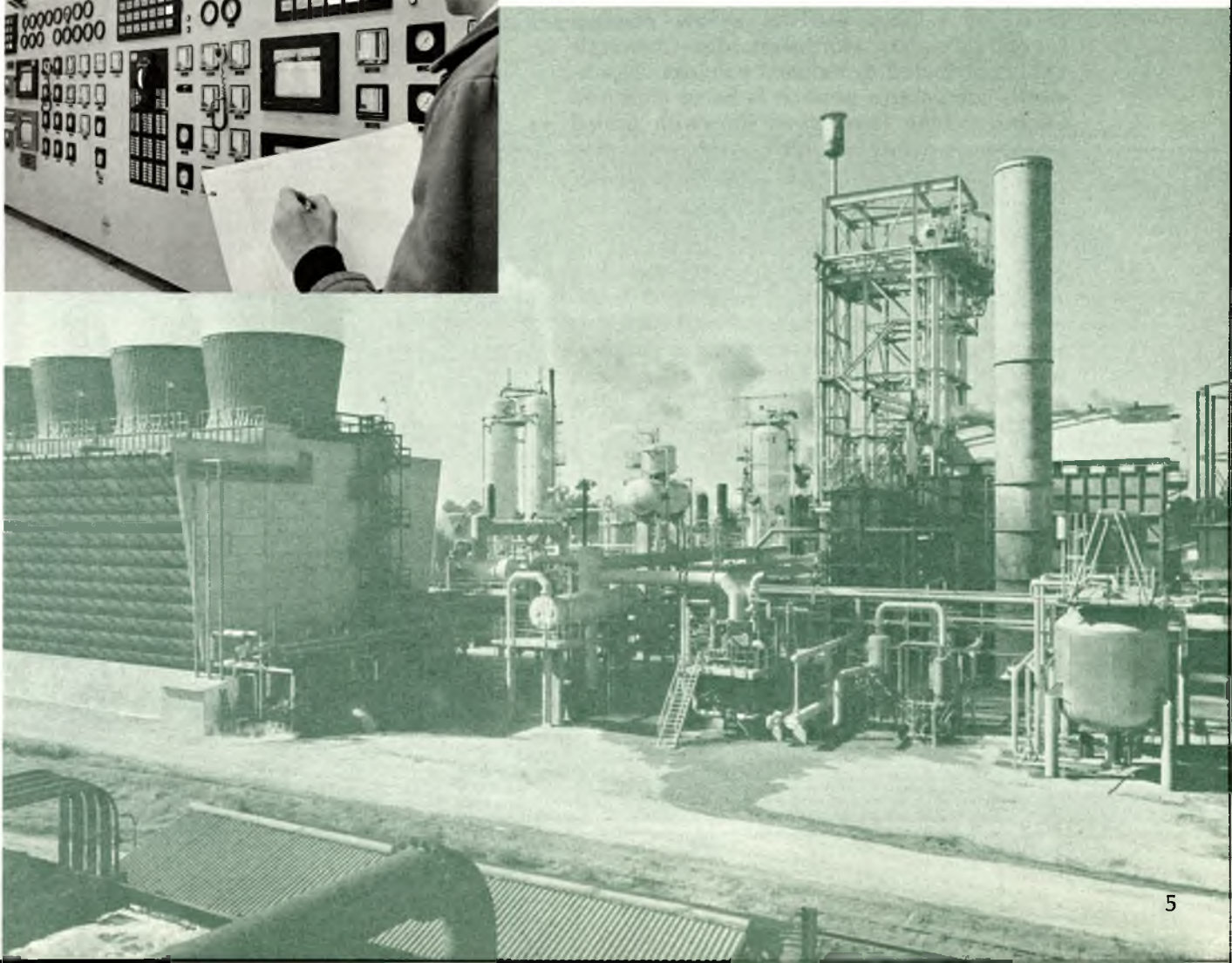
CSC's efficient new high volume ammonia plant implements the Company's commitment to pursue aggressively a larger share of the growing nitrogen market in agriculture and industry. This virtually automated facility was completed on schedule late in the year and is operating at near-capacity levels. Its daily output of ammonia could fill a 40 tank car railroad train. The plant's technology utilizes modern centrifugal compressors, high pressure reforming equipment and a giant 320 ton converter.

Anhydrous ammonia is the basic man-

made source of nitrogen for fertilizers and many industrial chemicals. In agriculture, we sell anhydrous ammonia for direct application to the soil, and use it as the source of nitrogen in our Hi-D® solid ammonium nitrate and ammonium-phosphate mixed fertilizers. In the industrial chemicals field, CSC anhydrous ammonia finds widespread use as the starting material for a long list of chemicals made by our Company and others. Products which CSC and its subsidiaries make from anhydrous ammonia include nitroparaffins; methylamines, a versatile group of intermediate chemicals; choline chloride, source of the fat metabolism vitamin, and high energy release materials for industrial and military uses.



CSC's new ammonia plant at Sterlington, Louisiana, was completed in late 1967 and is now operating at near-capacity. Operator in its modern control center (inset) checks production conditions throughout the plant.





Export and International Operations

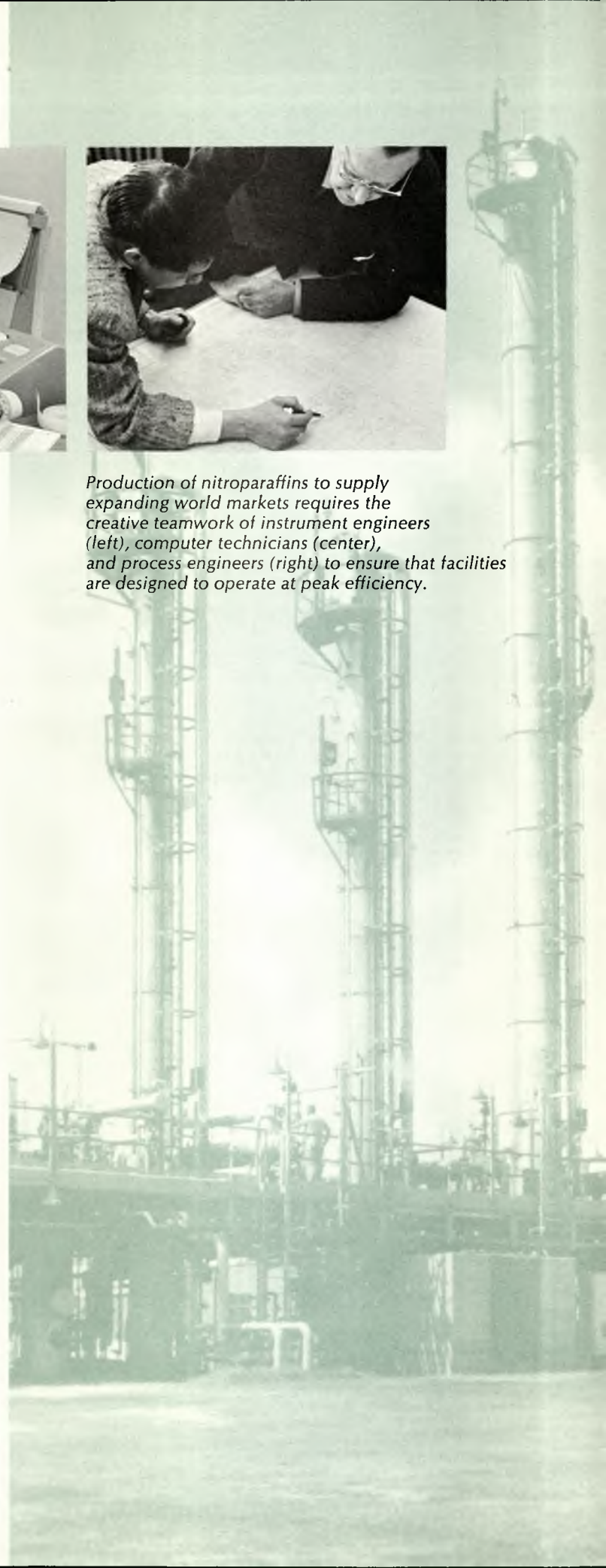
Expansion of CSC export operations in 1967 increased the number of countries where our products are being sold to 65. Sales volume of CSC bacitracin and choline chloride feed supplements for agriculture, and of nitroparaffins, methanol and methylamines for industry gained in response to expanding markets and needs.

In Canada, lower fertilizer sales and higher costs for sulphur used as a raw material by our subsidiary, Northwest Nitro-Chemicals Ltd., contributed to reduced earnings. Northwest's competitive position is being improved by broadening its product line with prilled ammonium nitrate and high analysis nitrogen-phosphate fertilizer mixes, including di-ammonium phosphate.

In Mexico, Catalisis, S.A., increased its output of methanol-based products, including formaldehyde, paraformaldehyde and hexamine. Catalisis is the chemical manufacturing arm of our Mexico operations, and Comsolmex, S.A., and Commercial Solvents de Mexico, S.A. de C.V., perform blending, packaging, distribution and marketing functions.

In Europe, CSC's Italy-based pharmaceutical subsidiaries, Istituto Chemioterapico Italiano, S.p.A., and Società Hoffmann, p.A., produce ethical pharmaceuticals for the Italian market and fine chemicals for Italy and other parts of the world. Istituto provides CSC with strategically situated European pharmaceutical research, production and marketing facilities. These operations work closely with related CSC activities in the United States.

Production of nitroparaffins to supply expanding world markets requires the creative teamwork of instrument engineers (left), computer technicians (center), and process engineers (right) to ensure that facilities are designed to operate at peak efficiency.



Research and Development

The continuing expansion of research is improving CSC's development opportunities in the life science, chemical, agricultural and high energy fields.

Animal science research has been intensified with the objective of increasing CSC's operations in animal health and veterinary medicine. Our growing knowledge of new RAL materials and results obtained in chemical and pharmacological research have yielded a number of potentially useful new compounds. The biological effects in animals which are being actively investigated include growth stimulation, regulation of the reproductive cycle and the improvement of resistance to disease. RAL studies relating to human medicine have

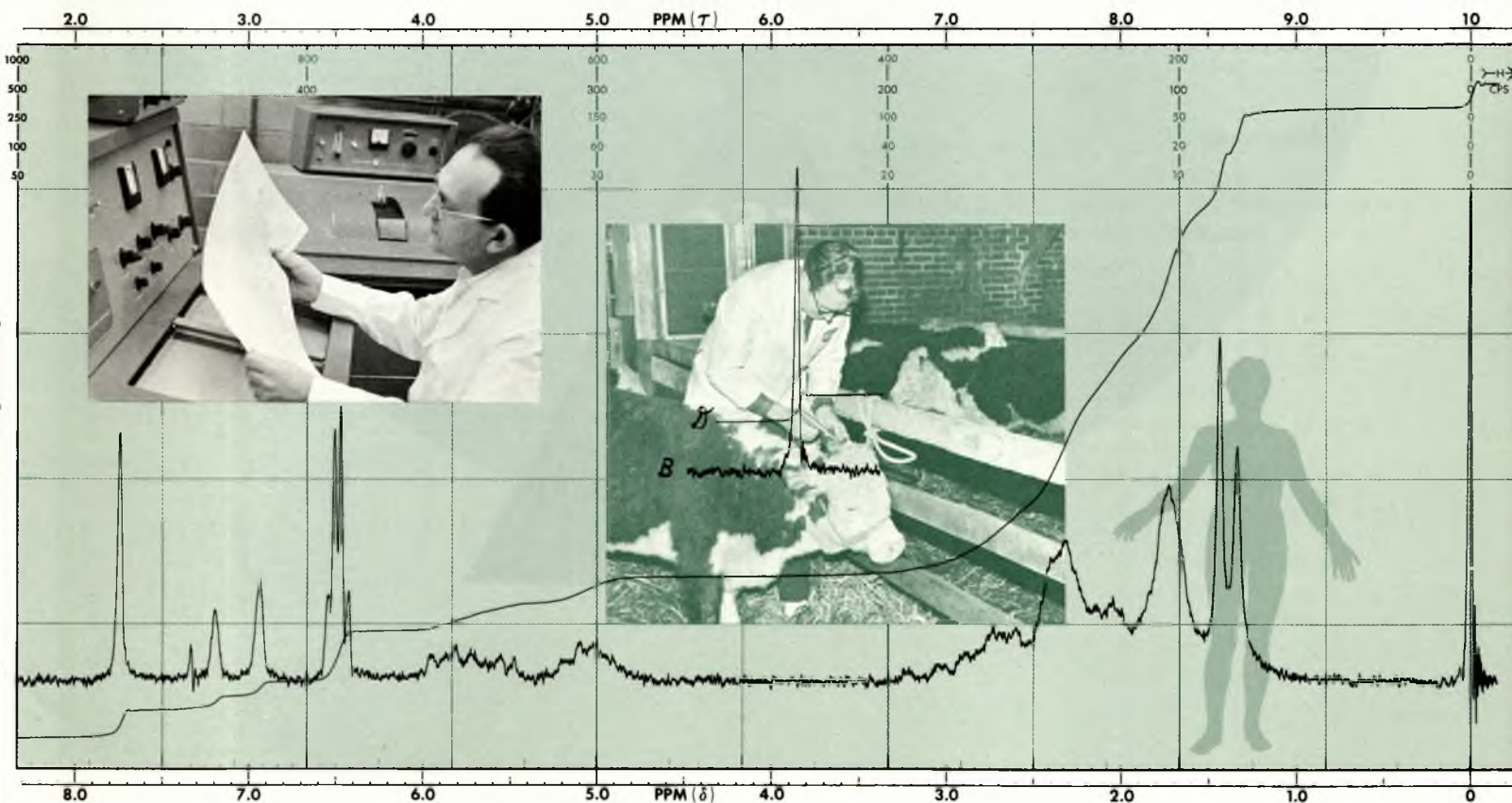
produced encouraging additional data, and these programs are being extended. It is still too early to say when or to what extent these compounds may contribute to sales and earnings.

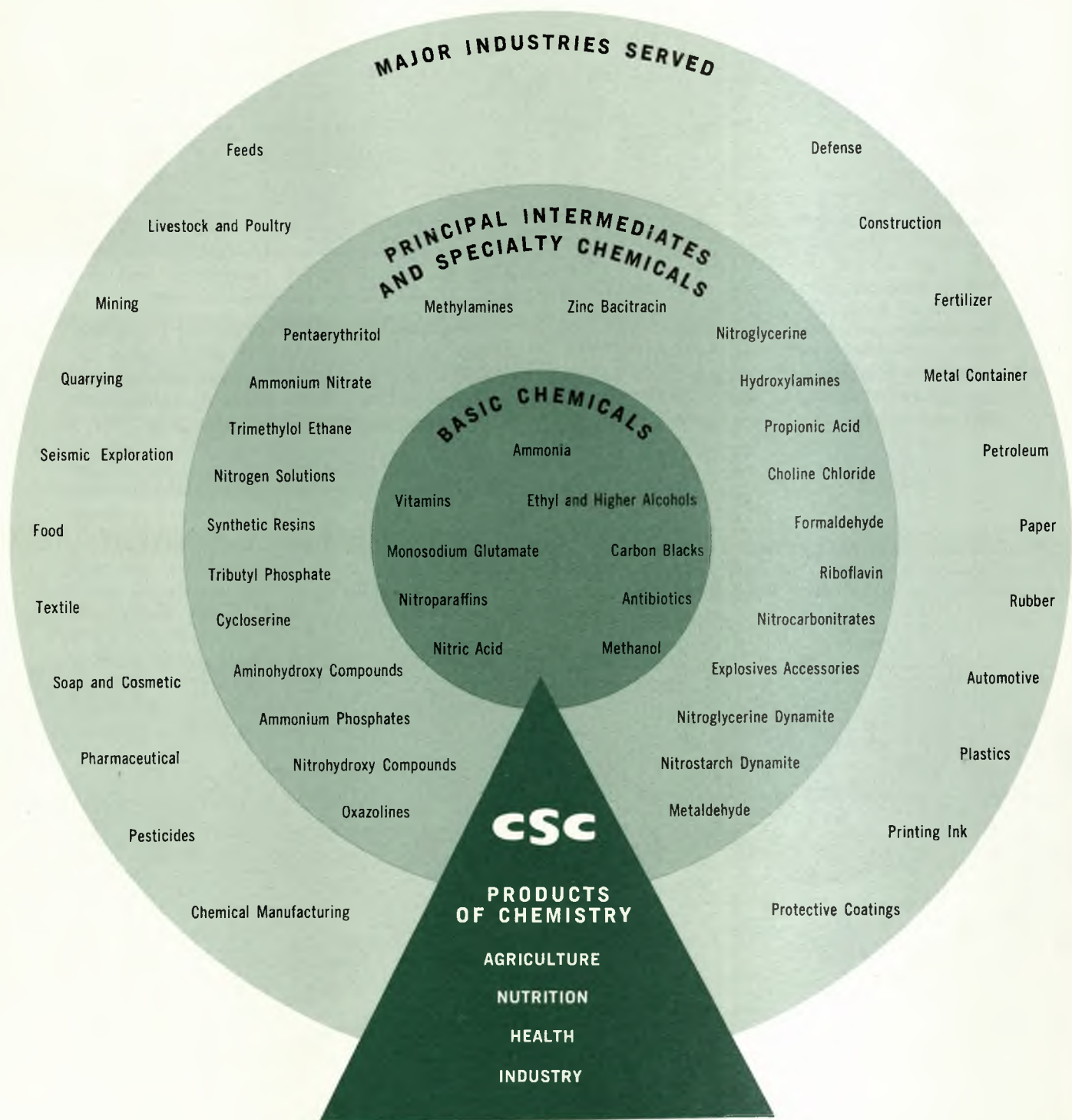
We are doing extensive work leading to the increased use of CSC-produced chemicals in coatings, adhesives, and other specialty products for the textile, wood, paper, rubber and metal industries.

An improved form of ammonium nitrate developed by CSC for agricultural and industrial uses will be marketed in 1968.

The research and development capability of our recently acquired Trojan Division in chemicals and high energy release is being coordinated with that of CSC. A number of interesting new products are emerging.

CSC scientists, using sophisticated laboratory equipment such as the analytical nuclear magnetic resonant spectrometer (left), have identified and increased their knowledge of new RAL materials.





COMMERCIAL SOLVENTS CORPORATION

Financial Review 1967

Revenues

Consolidated 1967 sales and other operating revenues of CSC were \$96,793,993, including sales of \$6,145,908 from the new Trojan Division for the last four months of the year. Sales of unconsolidated foreign subsidiaries were \$7,301,000 in 1967 as compared with \$6,567,000 in 1966.

Capital Expenditures

Expenditures for land, buildings and equipment totaled \$22,903,467 during 1967, the highest for any single year in the history of the Company. This total included \$6,500,000 for properties purchased from the Trojan Powder Company. Authorized work in progress at the year-end totaled \$29,764,700 of which \$1,410,500 has been expended.

Working Capital

Changes in the Company's working capital during 1967 reflect the year's capital expenditures. Higher accounts receivable and inventories are attributable to the Trojan Division operations. Cash flow generated during 1967 was \$9,861,470, as compared with \$11,500,029 for the previous year. Net consolidated earnings were \$4,411,253 in 1967, as compared with \$6,279,220 in 1966. Dividends equal to \$1.20 per common share and \$.90 per preferred share were paid to stockholders in both 1967 and 1966.

Taxes

A satisfactory settlement of adjustments relating to 1962 U. S. income taxes was reached in early 1967. Federal tax negotiations for the years 1963 and 1964 continue into 1968. All state and local tax matters are current.

Investment Tax Credit

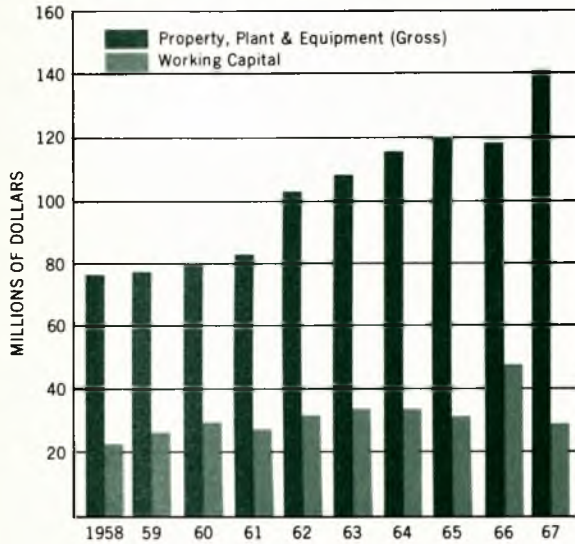
The investment tax credit taken into earnings for 1967 totaled \$1,598,800, as compared with \$310,825 for the previous year. The increase is principally due to the completion of the Company's new anhydrous ammonia plant and related facilities, built at a cost of approximately \$18,000,000.

Equity of Shareholders

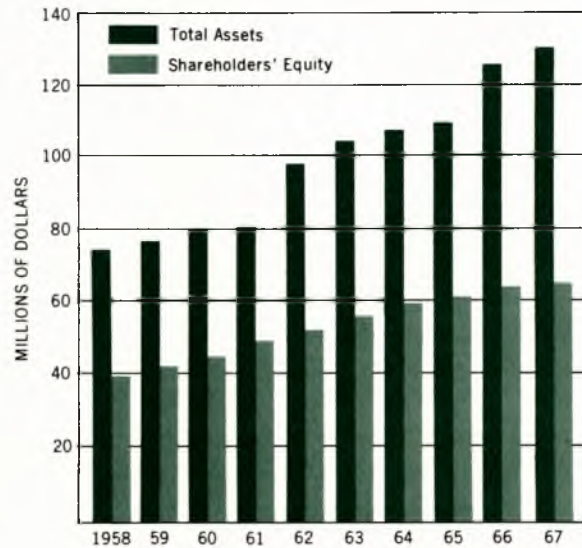
At the 1967 year-end, total equity of the common shareholders was \$61,901,985. On the basis of common stock outstanding at the year-end, the book value per common share was \$20.41 as against \$20.12 in 1966.

The average number of common shares outstanding was 3,024,504 for 1967 compared with 2,993,100 for the preceding year.

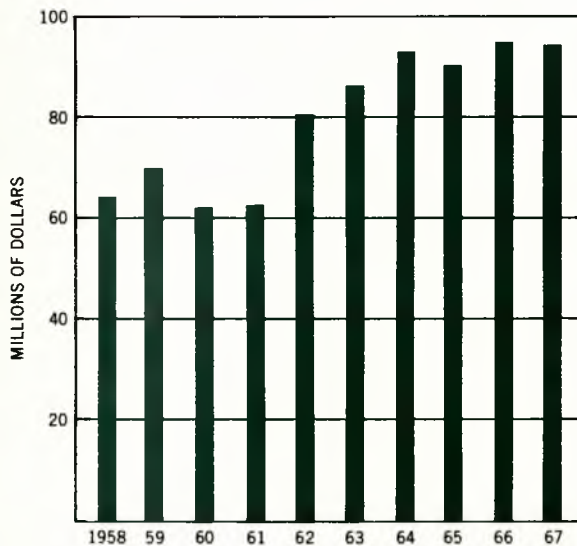
Property, Plant & Equipment (Gross)
& Working Capital



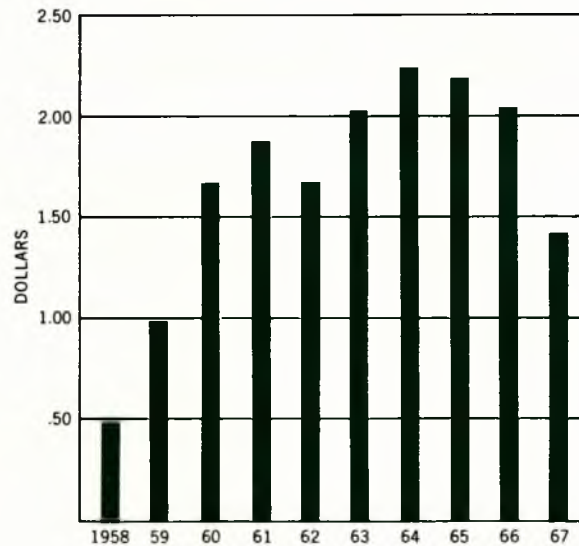
Total Assets & Shareholders' Equity



Net Sales



Net Earnings Per Common Share



COMMERCIAL SOLVENTS CORPORATION

Assets

	December 31,	
	1967	1966
CURRENT ASSETS		
Cash including time deposits	\$ 2,774,350	\$ 6,755,425
U.S. Government and other securities at cost approximating market	—	19,215,579
Accounts and notes receivable (less allowance for doubtful accounts, 1967 — \$268,810; 1966 — \$252,952)	20,775,302	16,894,114
Inventories, at lower of cost or market		
Finished products and materials in process	14,672,597	9,937,156
Raw materials and supplies	9,320,296	6,978,805
Prepaid expenses	850,984	1,254,917
Total Current Assets	<u>48,393,529</u>	<u>61,035,996</u>
INVESTMENTS AND NON-CURRENT RECEIVABLE		
Investments in non-consolidated foreign subsidiaries, at cost	4,603,998	4,551,628
Other investments	860,272	735,272
Non-current account receivable	3,700,000	3,700,000
Total Investments and Non-current Receivable	<u>9,164,270</u>	<u>8,986,900</u>
PROPERTY, PLANT AND EQUIPMENT, at cost		
Land	1,006,509	783,207
Plant, equipment and gas properties	140,444,479	118,503,651
	141,450,988	119,286,858
Less accumulated depreciation, depletion and amortization	70,784,311	65,989,629
Net Property, Plant and Equipment	<u>70,666,677</u>	<u>53,297,229</u>
PATENTS AND OTHER INTANGIBLES, at amortized cost	396,373	692,433
DEFERRED CHARGES	1,031,264	1,017,636
	<u>\$129,652,113</u>	<u>\$125,030,194</u>

SEE ACCOMPANYING NOTES TO FINANCIAL STATEMENTS.

CONSOLIDATED BALANCE SHEET

Liabilities and Shareholders' Equity

	December 31,	
	1967	1966
CURRENT LIABILITIES		
Notes payable — banks	\$ 7,500,000	\$ —
Accounts payable	6,876,949	5,639,558
Accrued Federal and Foreign income taxes	—	2,898,838
Other accrued liabilities	2,297,874	1,842,107
Current installments on long-term debt	2,485,000	2,485,000
Total Current Liabilities	<u>19,159,823</u>	<u>12,865,503</u>
LONG-TERM DEBT AND DEFERRED TAXES		
Long-term debt, less current installments	35,418,800	38,063,800
Deferred Federal and Foreign income taxes	10,192,037	10,136,145
Total Long-term Debt and Deferred Taxes	<u>45,610,837</u>	<u>48,199,945</u>
MINORITY INTEREST IN SUBSIDIARY	286,828	285,219
SHAREHOLDERS' EQUITY		
Preferred Stock, \$20 par value, authorized 1,000,000 shares		
Series A Preferred Stock, 4.5% Cumulative Convertible, redeemable at \$21 per share beginning January 1, 1969 through December 31, 1970, \$20.50 through December 31, 1973 and \$20 thereafter		
Authorized — 273,400 shares		
Issued — 134,632 shares in 1967; 155,673 shares in 1966 . . .	2,692,640	3,113,460
Common Stock, \$1 par value		
Authorized — 6,000,000 shares		
Issued — 3,109,670 shares in 1967; 3,087,923 shares in 1966 . . .	7,066,244	7,044,497
Additional paid-in capital	8,709,998	8,047,429
Earnings retained in business	48,207,151	47,555,549
	<u>66,676,033</u>	<u>65,760,935</u>
Less treasury common stock, at cost — 77,400 shares	2,081,408	2,081,408
Total Shareholders' Equity	<u>64,594,625</u>	<u>63,679,527</u>
	<u>\$129,652,113</u>	<u>\$125,030,194</u>

COMMERCIAL SOLVENTS CORPORATION

Consolidated Earnings and Summary of Earnings Retained in Business

	Year Ended December 31,	
	1967	1966
REVENUES		
Net sales	\$94,780,404	\$95,355,580
Other income (net)	2,013,589	1,790,879
	<u>96,793,993</u>	<u>97,146,459</u>
COSTS AND EXPENSES		
Cost of sales	71,978,728	67,763,367
Selling, research and administrative expenses	12,641,658	11,426,820
Depreciation, depletion and amortization	5,450,217	5,220,809
Interest on borrowings	1,925,098	1,564,847
	<u>91,995,701</u>	<u>85,975,843</u>
EARNINGS BEFORE FEDERAL AND FOREIGN INCOME TAXES AND MINORITY INTEREST	4,798,292	11,170,616
FEDERAL AND FOREIGN INCOME TAXES (net of investment credit 1967— \$1,598,800; 1966—\$310,825)	385,430	4,866,568
MINORITY INTEREST IN EARNINGS OF SUBSIDIARY	1,609	24,828
NET EARNINGS FOR YEAR (1967—\$1.42 per share; 1966—\$2.05 per share)	4,411,253	6,279,220
EARNINGS RETAINED IN BUSINESS AT BEGINNING OF YEAR	47,555,549	45,029,607
	<u>51,966,802</u>	<u>51,308,827</u>
DIVIDENDS PAID TO SHAREHOLDERS		
Preferred stock (\$.90 per share)	127,614	157,365
Common stock (\$1.20 per share)	3,632,037	3,595,913
	<u>3,759,651</u>	<u>3,753,278</u>
EARNINGS RETAINED IN BUSINESS AT END OF YEAR	<u>\$48,207,151</u>	<u>\$47,555,549</u>

Consolidated Statement of Source and Application of Funds

SOURCE OF FUNDS		
Net earnings	\$ 4,411,253	\$ 6,279,220
Depreciation, depletion and amortization	5,450,217	5,220,809
Proceeds from sale of 4½% Convertible Subordinated Debentures	—	19,750,000
Proceeds from exercise of stock options	264,578	261,897
Proceeds from disposal of property, plant and equipment	43,616	674,919
Increase (decrease) in deferred Federal and Foreign income taxes	55,892	(782,495)
Other—net	145,775	354,900
Decrease (increase) in working capital	18,936,787	(15,321,019)
Total	<u>\$29,308,118</u>	<u>\$16,438,231</u>
APPLICATION OF FUNDS		
Dividends paid to shareholders	\$ 3,759,651	\$ 3,753,278
Expenditures for property, plant and equipment	22,903,467	9,676,003
Payments on long-term debt	2,485,000	2,485,000
Principal amount of subsidiary's Subordinate Debentures repurchased	160,000	523,950
Total	<u>\$29,308,118</u>	<u>\$16,438,231</u>

SEE ACCOMPANYING NOTES TO FINANCIAL STATEMENTS.

Notes to Financial Statements

Basis of Financial Statements and Investments in Subsidiaries

The consolidated financial statements include the accounts of all wholly-owned subsidiaries and Northwest Nitro-Chemicals Ltd. The Company's ownership of Northwest's common stock was approximately 95% on December 31, 1967.

The accounts of consolidated foreign subsidiaries are expressed in U.S. dollars at appropriate rates of exchange.

On September 1, 1967, the Company acquired certain chemical and explosives capital assets and inventories of Trojan Powder Company for cash. The operations of the newly established Trojan Division have been included in the financial statements since date of acquisition.

The investment in non-consolidated foreign subsidiaries represents a 51% interest in Italian pharmaceutical companies. The Company's equity in the 1967 net earnings of these subsidiaries was \$104,000 and its equity in their net assets at December 31, 1967 was \$2,920,000. During 1967 dividends totalling \$139,000 were received from these subsidiaries.

Long-term Debt

Long-term debt outstanding at December 31, 1967 is shown in the following summary:

	Current Installments	Long-term
Commercial Solvents Corporation —		
3¾% notes payable to insurance companies in annual installments through 1972	\$1,560,000	\$ 6,280,000
4½% Convertible Subordinated Debentures due July 1, 1991 (annual sinking fund payments of \$1,000,000 in 1977 through 1990; and \$6,000,000 due at maturity)	—	20,000,000
	<u>1,560,000</u>	<u>26,280,000</u>
Northwest Nitro-Chemicals Ltd. —		
5¾% First Mortgage Serial Bonds of 1960 payable in annual installments through 1970	925,000	2,543,750
Subordinate Debentures of 1960 due June 30, 1979 bearing interest at 6% through June 30, 1970 and thereafter at 6½%, redeemable at 105% to June 30, 1970 and at reducing amounts thereafter (exclusive of \$1,904,950 principal amount owned by Commercial Solvents Corporation)	—	6,595,050
	<u>925,000</u>	<u>9,138,800</u>
	<u>\$2,485,000</u>	<u>\$35,418,800</u>

The loan agreements covering the 3¾% notes payable to insurance companies impose certain restrictions on the declaration of dividends other than stock dividends.

The 4½% Convertible Subordinated Debentures due July 1, 1991 are convertible into common stock of the Company at \$68 per share and 294,118 shares of common stock were reserved for this purpose at December 31, 1967. The Debentures are subject to redemption at the option of the Company at prices ranging from 104¼% of the principal amount through June 30, 1968 to 100% of the principal amount on July 1, 1986 and thereafter. The Indenture relating to the Debentures imposes certain restrictions, including among others, those pertaining to the payment of dividends other than stock dividends.

The 5¾% First Mortgage Serial Bonds of 1960 of Northwest Nitro-Chemicals Ltd. are secured by all of its property, plant and equipment and a first floating charge on all of its other property and assets. The mortgage bonds, subordinate debentures and preferred stock of Northwest contain a number of restrictions, including among others, those pertaining to the payment of dividends.

At December 31, 1967, \$5,813,000 of consolidated earnings retained in business was free of the restrictions contained in the Company's loan agreements.

Shareholders' Equity

The Series A Preferred Stock, 4.5% cumulative convertible, has voting rights and is convertible on the basis of .597 of a share of common stock for each one share of such preferred stock. During 1967, 21,041 shares of Series A Preferred Stock were converted into 12,539 shares of common stock. In this connection, \$407,199 representing the excess of the par value of the Series A Preferred Stock over the par value of the common stock issued in conversion thereof and the market value of fractional shares, was credited to additional paid-in capital.

At December 31, 1967, 80,377 shares of common stock were reserved for conversion of the outstanding Series A Preferred Stock.

Stock Options

At December 31, 1966 options to purchase 36,487 common shares at prices varying from \$20.38 to \$33.00 per share were held by certain key executive employees under the Revised Stock Option Plan. During 1967 options for 9,208 common shares were exercised at prices varying from \$20.38 to \$33.00 per share, an aggregate of \$264,578, of which \$255,370, representing the excess of option prices over par value of common stock issued, was credited to additional paid-in capital.

In 1967, the stockholders approved the Qualified Stock Option Plan. Under this plan, 100,000 shares of common stock are reserved for granting to participating executives and other key employees. During the year options to purchase 42,800 common shares were granted at \$40.75 per share.

Options granted prior to 1964 were at a price in excess of 95% of the market value of the shares when the options were granted. Options granted in 1964 and thereafter were at a price equal to 100% of the market value of the shares when granted.

Notes to Financial Statements (Continued)

At December 31, 1967, there were outstanding options to purchase 70,079 common shares at prices varying from \$30.50 to \$40.75 per share, of which options on 27,279 shares were exercisable. In addition 57,200 common shares were reserved for which no options had been granted.

Pensions

The Company and a subsidiary have pension plans covering certain employees, and past service costs under these plans have been fully funded as at December 31, 1967. The Company's policy is to fund pension costs accrued. The total pension expense for the year was \$350,542.

Effective January 1, 1968, a new contributory pension plan was offered to certain plant payroll employees. The amount necessary to fund past service costs under this new plan will be provided for starting in 1968.

Non-current Account Receivable

The non-current account receivable of \$3,700,000 from a bankrupt estate was set up in 1962 based on the estimated value of the assets of the estate at that time. The major asset of the estate is a note, payable in 1972, received from the purchaser of most of the assets of the estate. Current estimates of the value of the estate, and the Company's share thereof, vary and it is not possible to ascertain the amount that will be recovered by the Company.

Uncompleted Authorizations

At December 31, 1967, \$28,354,200 of the cost of expansion and improvement projects authorized by the Company's Directors was unexpended. Amounts expended on such projects are included in Property, Plant and Equipment.

ARTHUR YOUNG & COMPANY

277 PARK AVENUE
NEW YORK, N. Y. 10017

The Board of Directors and Shareholders
COMMERCIAL SOLVENTS CORPORATION

We have examined the accompanying consolidated balance sheet of Commercial Solvents Corporation and subsidiaries at December 31, 1967, the related statement of consolidated earnings and summary of earnings retained in business and the consolidated statement of source and application of funds for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the statements mentioned above present fairly the consolidated financial position of Commercial Solvents Corporation and subsidiaries at December 31, 1967, the consolidated results of their operations and the source and application of their consolidated working capital for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Arthur Young & Company

February 9, 1968

Ten Year Summary

Operating Record

(Amounts, other than per share figures, expressed in thousands)

Year	Net Sales	Cash Flow(a)	Depreciation, Depletion & Amortization	Net Earnings		Cash Dividends Paid Per Common Share
				Amount	Per Common Share(b)	
1958	\$64,728	\$ 5,158	\$3,740	\$1,418	\$.48	\$.275
1959	70,381	6,531	3,680	2,851	.99	.25
1960	62,337	8,511	3,671	4,840	1.67	.50
1961	63,841	9,024	3,519	5,505	1.88	.65
1962(c) . . .	80,681	9,410	4,466	4,944	1.68	.80
1963	86,199	10,702	4,718	5,984	2.03	.825
1964	93,132	11,449	4,546	6,903	2.24	1.10
1965	90,764	11,869	5,123	6,746	2.19	1.20
1966	95,356	11,500	5,221	6,279	2.05	1.20
1967	94,780	9,861	5,450	4,411	1.42	1.20

Financial Position

(Amounts expressed in thousands)

Year	Total Assets	Current Assets	Current Liabilities	Working Capital	Property, Plant & Equipment		Long-term Debt	Shareholders' Equity
					Gross	Net		
1958	\$ 73,958	\$32,770	\$ 9,605	\$23,165	\$ 77,306	\$36,709	\$20,320	\$39,282
1959	76,388	38,662	11,299	27,363	78,338	34,351	18,760	41,447
1960	79,566	41,482	10,722	30,760	80,760	33,102	17,200	44,889
1961	80,182	37,651	9,513	28,138	83,068	32,180	15,640	48,783
1962(c) . . .	97,690	41,415	8,905	32,510	104,008	44,683	28,749	51,976
1963	103,617	46,699	12,303	34,396	108,912	45,838	26,264	55,780
1964	106,780	47,103	12,758	34,345	115,949	48,806	23,746	59,344
1965	108,572	48,256	15,407	32,849	120,367	49,250	21,073	60,895
1966	125,030	61,036	12,866	48,170	119,287	53,297	38,064	63,680
1967	129,652	48,394	19,160	29,234	141,451	70,667	35,419	64,595

Employees and Stockholders

Year	Number of Employees	Wages & Salaries	Cost of Pensions & Other Benefits	Assets Employed for Each Employee	Number of Common Shareholders At Year End	Average Number of Common Shares Outstanding
1958	2,126	\$11,530,397	\$1,016,452	\$34,787	18,406	2,938,599
1959	2,036	11,680,749	1,051,846	37,519	17,158	2,892,206
1960	1,971	11,480,373	1,005,545	40,368	17,917	2,891,278
1961	1,945	11,771,310	1,033,826	41,224	17,331	2,920,649
1962(c) . . .	2,301	13,615,773	1,278,869	42,456	17,001	2,946,632
1963	2,386	14,511,551	1,312,609	43,427	16,115	2,940,795
1964	2,346	15,340,986	1,589,154	45,516	15,035	2,985,856
1965	2,313	15,624,747	1,599,250	46,940	14,500	2,984,819
1966	2,413	16,067,664	1,687,421	51,729	16,312	2,993,100
1967	3,148	18,813,264	1,815,162	41,186	15,783	3,024,504

(a) Net earnings, depreciation, depletion and amortization.

(b) Based on average number of shares outstanding during the year.

(c) Beginning in 1962, data include Northwest Nitro-Chemicals Ltd.

Commercial Solvents Corporation

245 Park Avenue

New York, N. Y. 10017

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COMMERCIAL SOLVENTS CORPORATION / Annual Report 1968

COMMERCIAL SOLVENTS CORPORATION

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(*Chairman, Executive Committee*)

WALTER C. BERGER

J. D. STETSON COLEMAN

AUSTIN S. IGLEHEART*

W. WARD JACKSON

WILLIAM S. LEONHARDT

G. HILMER LUNDBECK

GRAHAM W. McMILLAN

H. V. SHERRILL*

EMANUEL T. WEILER

MAYNARD C. WHEELER*

ROBERT C. WHEELER*

IVAN L. WILES

**Member of Executive Committee*

Officers

JEREMIAH MILBANK, JR., *Chairman of the Board*

ROBERT C. WHEELER, *President & Chief Executive Officer*

J. FRED DUDLEY, *Vice President*

W. WARD JACKSON, *Vice President*

WILLIAM S. LEONHARDT, *Vice President*

GRAHAM W. McMILLAN, *Vice President*

THOMAS PESCOD, *Controller*

HOWARD B. DURBIN, *Secretary and Treasurer*

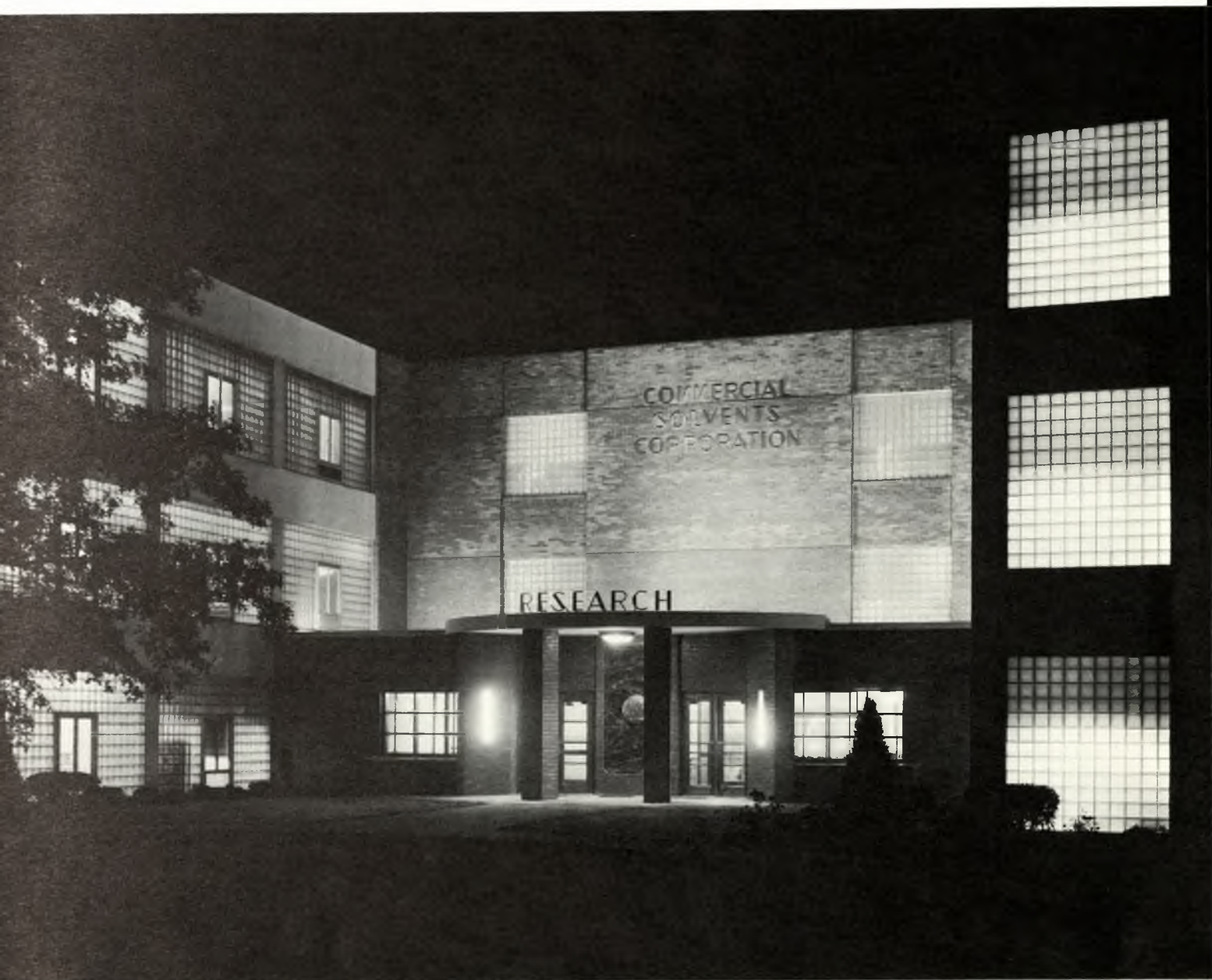
Transfer Agent

Chemical Bank New York Trust Company
20 Pine Street, New York, N. Y. 10015

Registrar

The Chase Manhattan Bank, N.A.
One Chase Manhattan Plaza, New York, N. Y. 10015

The annual meeting of shareholders will be held on April 3, 1969. A notice of the meeting, proxy statement and form of proxy is being sent to all shareholders. It will assist the management in preparing for the meeting if shareholders who do not expect to attend the meeting in person will sign, date and return the proxy promptly.



CSC Research and Development

Biochemical Processes and Products / RAL's / Thermal Carbon Blacks / Nitroparaffins / Nitrogen-Methanol Derivatives

Letter To Stockholders

Results

Record 1968 sales of \$108,843,000 showed a 14.8 percent gain over the 1967 level of \$94,780,400, reflecting progress through acquisition, expansion of facilities and market diversification. Achievement of our profit goals was thwarted by serious price weaknesses in certain key product areas, rising costs, and operating difficulties in our new ammonia plant. The 1968 investment tax credit taken into earnings was less than for the prior year. As a consequence, consolidated net earnings dropped to \$1,512,000, or \$.46 per common share, from \$4,411,300, or \$1.42 per common share for 1967. Accordingly, the Board of Directors deemed it prudent to reduce the common stock quarterly dividend from 30 to 20 cents per share starting with the second quarter. Preferred stockholders continued to receive quarterly dividends of 22½ cents per share. Capital expenditures in 1968 totaled \$6,706,500.

Fertilizers

The fertilizer business in the United States and Canada was our biggest concern in 1968. Industrial capacity for fertilizers increased greatly as new plants have been put on stream. Production has exceeded demand, and fertilizer prices hit new lows during the 1968 fertilizer season. This meant a serious cut in profits.

Prices in United States and Canadian fertilizer markets have recently shown signs of firming, perhaps signaling a bottoming out of the price slides of recent years. The long term outlook for fertilizers is good. Forecasts of continuing increases in world fertilizer use indicate a growing demand for these essential products.

Ammonia Plant

CSC's U. S. fertilizer business is based on our established position as a volume producer of ammonia and ammonium nitrate, two important sources of nitrogen for agriculture. In 1968 we had high costs and considerable down time at our new ammonia plant. This, coupled with lower prices, seriously reduced the profitability of our ammonia operations for the year. The end of technical operating problems, the increasing use of ammonia for our own manufacture of higher margin products, and a turnaround in fertilizer prices when it occurs, will enable CSC to derive full benefit from the new ammonia plant.

Canadian Fertilizer Operation

We have strengthened the competitive position of Northwest Nitro-Chemicals Ltd., our Canadian fertilizer subsidiary, by adding nitrogen and ammonium phosphate products formulated especially to meet the needs of farmers in Northwest's major marketing areas.

Methanol

Methanol marketing conditions were difficult during the year as both new and established producers brought in additional capacity. There has been considerable jockeying for position in the industry, causing prices to fall rapidly in late 1967 and early 1968. This, together with rising costs, cut into methanol profits. Because of the recent demand for methanol, prices firmed somewhat in late 1968, and the product was in short supply by the year end. Implementing a continuing CSC objective, we are making greater captive use of methanol as a basic raw material in the production of specialty chemicals. Our Trojan operations, acquired in the latter part of 1967, are an important producer of chemicals made from CSC methanol.

We have postponed indefinitely the building of a new methanol plant and are reviewing alternate approaches for increasing our output of this basic industrial chemical.

Our specialty chemical operations fared well during the year. Substantial progress was made in marketing these higher margin items for new uses to meet specific customer needs. Specialty chemicals, including nitroparaffins, thermal carbon blacks, adhesives and coatings chemicals, animal nutrition feed supplements and commercial explosives, are becoming an increasingly important part of CSC's business.

Specialty Chemicals

Encouraging results from the nitroparaffins provide the basis for continuing expansion. Sales volume and profits for these versatile products were up in 1968. In 1969 we will complete the construction of major new facilities to double our output of basic nitroparaffins. An expansion of our new nitroparaffin derivatives plant, which went into operation during the year, was producing at satisfactory rates by the year end.

Nitroparaffins

A polymer marketing unit was formed to handle CSC's growing sales of the nitroparaffins and McWhorter Chemicals Division products. The new unit is providing increased technical services to assist customers to reach their manufacturing objectives through the use of these products.

Nitroparaffins go principally into the adhesives, resins, coatings, pharmaceuticals, high energy release and printing fields. New oxazoline products introduced during 1968 are generating considerable interest as metal primers in the automotive, major household appliance and other metal working applications. The McWhorter Division uses nitroparaffins to make special purpose chemicals for the adhesives and coatings industries including vinyl and acrylic latex products, and urethane, polyester and oxazoline resins.

CSC, a leading producer of thermal carbon blacks, had major increases in sales and profits in U. S. and international markets for these materials during 1968. More products became available from the 1967 expansion of facilities at our Thermatomic Carbon Company Division. Continuing research and development are leading to new products for use in the rubber, automotive and plastics industries.

Thermal Carbon Blacks

The chemicals operations of our Trojan Division contributed significantly to improvements in specialty chemicals in 1968. Trojan chemical products include polyols used in alkyd resins, synthetic drying oils, fire retardant coatings, vinyl stabilizer applications, organic nitrates used in special purpose fuels, inorganic chemicals for the paper and leather industries and organic chemicals marketed to plastics, photographic and protective coatings customers. Trojan utilizes CSC methanol to make formaldehyde, pentaerythritol and trimethylolethane for many industrial uses.

Trojan Chemicals

Commercial explosive sales are now being handled by the unified marketing organization of our Trojan-U.S. Powder Division. The establishment of this new sales unit in 1968 makes it possible for a customer to select almost any explosive and accessory he requires from one source. Trojan-U.S. Powder products go mainly to the construction, mining, quarrying and seismic industries. Increasing quantities of CSC ammonia and ammonium nitrate are going into Trojan-U.S. Powder products. This product upgrading is improving results of our explosives business.

Explosives



Anhydrous Ammonia Plant at Sterlington, La.

The Businesses of CSC

Agricultural Chemicals / Chemicals for Industry / Animal Health and Nutrition / Pharmaceuticals / Explosives

CSC's well established lines of animal nutrition products include Baciferm® antibiotic, choline chloride and stabilized vitamin feed supplements. We are applying our know-how in this area of business to the development of animal health products. In 1968, we introduced a new soluble Baciferm product for the medication of poultry and swine. Our marketing of these products has been strengthened by increasing our staff of professionally trained technical service representatives.

Animal Health and Nutrition

Plans have been developed for marketing the first of the resorcylic acid lactones (RAL's) for animal nutrition use in steers, pending U.S. Food and Drug Administration clearance. This compound, RALGRO, is an anabolic agent which, by increasing protein retention, enables animals to reach market weight sooner and with greater feed efficiency. In doing so, RALGRO has not exhibited unwanted side effects.

RAL's

To augment our own RAL research and development in the animal sciences, we entered into an agreement with the Ralston Purina Company during 1968 whereby Ralston Purina will participate in the testing and development of certain RAL compounds for animal use in the United States and other western hemisphere countries. RAL's supplied by CSC will be tested by Ralston Purina to determine their efficacy in such areas as feed efficiency and growth stimulation.

RAL Animal Research

The pharmaceutical research capability of Sandoz, Inc., has been added to the study of RAL's for human use. Our 1968 agreement with Sandoz, Inc., establishes a research program to pursue the investigation of the RAL's for human applications and the development of pharmaceutical RAL products. CSC will produce the basic RAL materials for either company's manufacture of any marketable products which emerge from the program. Both companies will have United States marketing rights to such new products.

RAL's for Human Use

We have entered into an agreement with Sandoz, Inc.'s parent company, Sandoz, Ltd., whose pharmaceutical, chemical and other operations are headquartered in Switzerland. Under this agreement, CSC and Sandoz, Ltd., will both participate in any development and marketing of pharmaceutical RAL products outside the United States.

Because the RAL's are new compounds, the extent to which they will contribute to sales and earnings remains to be seen when they reach the marketplace.

CSC is widely experienced in fermentation production of chemicals, antibiotics and food products. We are making greater use of this capability by custom manufacturing for other companies. At our Terre Haute, Indiana, fermentation complex proteolytic enzymes made especially for new laundry products will be manufactured on a contract basis in 1969, and we will continue custom antibiotic production for pharmaceutical use.

Custom Production

Much of the natural gas we use to make methanol, ammonia, their derivatives and thermal carbon blacks at Sterlington, Louisiana, is supplied at low cost from company owned and operated wells. In 1968 we continued to increase our activity in this area by bringing in new wells in the Monroe Gas Field of northern Louisiana.

Natural Gas Operations

In 1968 we continued to expand our base of international operations and to open profitable markets for our products. CSC bacitracin and choline chloride

International Operations

agricultural feed supplements, and nitroparaffins, methylamines and methanol for industrial use moved in good volume to customers overseas.

Mexico

Our manufacturing and marketing operations in Latin America showed gains over the preceding year. Catalisis, S.A., CSC manufacturing affiliate in Mexico, produces a number of methanol-based industrial chemicals. Blending, packaging, distribution and marketing functions for these and other CSC products are handled by Commercial Solvents de Mexico, S.A., and Comsolmex, S.A.

Europe

Our Italian companies, Istituto Chemioterapico Italiano, S.p.A., and Società Hoffmann, p.A., increased their production of prescription pharmaceuticals marketed in Italy and fine chemicals sold there and in other parts of the world.

In our European animal nutrition and health operations, CSC increased its 50 percent interest in Chemsyna, GmbH, to full ownership in January, 1969. Chemsyna is headquartered in Munich, Germany. We acquired a half interest in Industrial Kern Española, S.A., marketer of animal health and growth products in Spain. CSC products with which Industrial Kern is principally concerned include veterinary pharmaceuticals and feed efficiency supplements.

Research and Development

The role of research is essential to the attainment of management objectives and we are continuing to provide broad support for the important programs now under way in our laboratories. Our Research and Development scientists are achieving positive results in such areas as biochemical processes and products, RAL's, thermal carbon blacks, nitroparaffins and nitrogen-methanol derivatives.

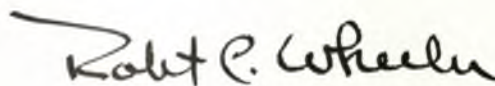
Directorate

In January, 1969, Mr. J. D. Stetson Coleman, financial executive and a director of several corporations, was elected to CSC's Board.

Looking ahead, we are focusing the main thrust of our research skills on higher margin products. We are moving aggressively to expand the marketing of profitable specialty chemicals. Our engineering and manufacturing groups are utilizing their know-how to improve operations of the new plants recently placed on stream. Opportunities for further acquisitions and joint ventures are being investigated.

With the continued hard work of our employees and support of our stockholders, we are confident that the positive steps we have taken are the basis for achieving CSC's long term goals for profit improvement.

Sincerely,



ROBERT C. WHEELER
President

February 17, 1969

Financial Review

Consolidated 1968 sales and other operating revenues of CSC were \$109,420,400 as compared with \$96,792,400 the preceding year. These figures include sales of the new Trojan Division for four months in 1967 and 12 months in 1968.

Revenues

A total of \$6,706,500 was expended during 1968 for property, plant and equipment. Principal expenditures included in this total were for basic nitroparaffins and derivatives facilities, Trojan-U.S. Powder plant expansions, gas wells, and prilling and fertilizer mixing facilities at Northwest Nitro-Chemicals. Authorized work in progress at the year end totaled \$15,401,600 of which \$5,114,500 has been expended.

Capital Expenditures

As at December 31, 1968, working capital was \$29,050,900 as compared with \$31,157,700 at the end of the previous year. Cash flow generated during 1968 was \$8,424,300 as against \$9,861,500 in 1967. Consolidated net earnings were \$1,512,000 in 1968 as compared with \$4,411,300 in the prior year. Dividends of \$2,850,600 were paid during 1968 on outstanding common and preferred shares. Interest paid to holders of CSC convertible subordinate debentures totaled \$900,000 for the year.

Working Capital

CSC has been carrying a non-current account receivable from the bankrupt Estes estate in the amount of \$3,700,000 since a 1962 after-tax writeoff of \$924,400. The Trustee of the estate has made no distribution of assets to Estes creditors. It is not possible to determine at this time when or in what amount these assets will become available for distribution. As at December 31, 1968, this receivable was written off and, after adjustment for Federal income taxes, a prior period adjustment of \$1,776,000 was made to Earnings Retained in Business. When and if distribution of the Estes assets occurs, any amount accruing to CSC will be credited to Earnings Retained in Business. CSC has applied for a \$1,924,000 Federal income tax refund in this matter.

Non-current Receivable Writeoff

The construction of nitroparaffin derivative facilities, Trojan-U.S. Powder plant expansions, and the drilling of additional gas wells were major items in the \$232,500 tax credit taken into 1968 earnings. This amount compares to \$1,598,800 for the preceding year, during which CSC completed its new anhydrous ammonia plant and related facilities.

Investment Tax Credit

The total equity of common shareholders on December 31, 1968, was \$58,802,300, which compares with \$60,126,000 on the same 1967 date.

Equity of Shareholders

Common shares outstanding averaged 3,032,620 in 1968 and 3,024,504 in 1967. Book value per common share outstanding as at December 31 of each year was \$19.39 and \$19.83, respectively.

COMMERCIAL SOLVENTS CORPORATION
Consolidated Balance Sheet

Assets

	December 31,	
	1968	1967
CURRENT ASSETS		
Cash including time deposits	\$ 3,317,916	\$ 2,774,350
Accounts and notes receivable (less allowance for doubtful accounts, 1968 — \$273,616; 1967 — \$268,810)	19,373,813	20,775,302
Federal income tax refund claim	1,924,000	1,924,000
Inventories, at lower of cost or market		
Finished products and materials in process	13,498,513	14,672,597
Raw materials and supplies	8,476,954	9,320,296
Prepaid expenses	1,159,259	850,984
Total Current Assets	47,750,455	50,317,529
INVESTMENTS		
Investments in non-consolidated foreign subsidiaries, at cost	4,603,998	4,603,998
Other investments	1,025,273	860,272
Total Investments	5,629,271	5,464,270
PROPERTY, PLANT AND EQUIPMENT, at cost		
Land	1,129,532	1,006,509
Plant, equipment and gas properties	146,108,541	140,444,479
	147,238,073	141,450,988
Less accumulated depreciation, depletion and amortization	77,431,065	70,784,311
Net Property, Plant and Equipment	69,807,008	70,666,677
PATENTS AND OTHER INTANGIBLES, at amortized cost	275,112	396,373
DEFERRED CHARGES	894,760	1,031,264
	\$124,356,606	\$127,876,113

SEE ACCOMPANYING NOTES TO FINANCIAL STATEMENTS.

Liabilities and Shareholders' Equity

	December 31,	
	1968	1967
CURRENT LIABILITIES		
Notes payable — banks	\$ 5,462,500	\$ 7,500,000
Accounts payable	7,652,627	6,876,949
Accrued Federal and Foreign income taxes	588,784	—
Other accrued liabilities	2,510,673	2,297,874
Current installments on long-term debt	2,485,000	2,485,000
Total Current Liabilities	18,699,584	19,159,823
LONG-TERM DEBT AND DEFERRED TAXES		
Long-term debt, less current installments	32,933,800	35,418,800
Deferred Federal and Foreign income taxes	10,970,098	10,192,037
Total Long-term Debt and Deferred Taxes	43,903,898	45,610,837
MINORITY INTEREST IN SUBSIDIARY	258,171	286,828
SHAREHOLDERS' EQUITY		
Preferred Stock, \$20 par value, authorized 1,000,000 shares		
Series A Preferred Stock, 4.5% Cumulative Convertible, redeemable at \$21 per share beginning January 1, 1969 through December 31, 1970, \$20.50 through December 31, 1973 and \$20 thereafter		
Authorized — 273,400 shares		
Issued — 134,632 shares	2,692,640	2,692,640
Common Stock, \$1 par value		
Authorized — 6,000,000 shares		
Issued — 3,110,120 shares in 1968; 3,109,670 shares in 1967	7,066,694	7,066,244
Additional paid-in capital	8,724,398	8,709,998
Earnings retained in business	45,092,629	46,431,151
	63,576,361	64,900,033
Less treasury common stock, at cost — 77,400 shares	2,081,408	2,081,408
Total Shareholders' Equity	61,494,953	62,818,625
	<u>\$124,356,606</u>	<u>\$127,876,113</u>

COMMERCIAL SOLVENTS CORPORATION

Consolidated Earnings and Summary of Earnings Retained in Business

	Year Ended December 31,	
	1968	1967
REVENUES		
Net sales	\$108,843,011	\$94,780,404
Other income (net)	577,410	2,011,980
	<u>109,420,421</u>	<u>96,792,384</u>
COSTS AND EXPENSES		
Cost of sales	83,967,435	71,978,728
Selling, research and administrative expenses	14,142,370	12,641,658
Depreciation, depletion and amortization (principally straight line method)	6,912,277	5,450,217
Interest on borrowings	2,144,806	1,925,098
	<u>107,166,888</u>	<u>91,995,701</u>
EARNINGS BEFORE FEDERAL AND FOREIGN INCOME TAXES	2,253,533	4,796,683
FEDERAL AND FOREIGN INCOME TAXES (net of investment credit 1968 — \$232,500; 1967 — \$1,598,800)	741,496	385,430
NET EARNINGS FOR YEAR (1968—\$.46 per share; 1967—\$1.42 per share)	<u>1,512,037</u>	<u>4,411,253</u>
EARNINGS RETAINED IN BUSINESS AT BEGINNING OF YEAR — (restated in 1967—see note)	46,431,151	45,779,549
	<u>47,943,188</u>	<u>50,190,802</u>
DIVIDENDS PAID TO SHAREHOLDERS		
Preferred stock (\$.90 per share)	121,171	127,614
Common stock (1968 — \$.90 per share; 1967 — \$1.20 per share)	2,729,388	3,632,037
	<u>2,850,559</u>	<u>3,759,651</u>
EARNINGS RETAINED IN BUSINESS AT END OF YEAR	<u>\$ 45,092,629</u>	<u>\$46,431,151</u>

Consolidated Statement of Source and Application of Funds

SOURCE OF FUNDS		
Net earnings	\$ 1,512,037	\$ 4,411,253
Depreciation, depletion and amortization	6,912,277	5,450,217
Increase in deferred Federal and Foreign income taxes (relating principally to depreciation)	778,061	55,892
Proceeds from exercise of stock options	14,850	264,578
Other — net	64,107	105,589
Decrease in working capital	2,106,835	18,936,787
Total	<u>\$11,388,167</u>	<u>\$29,224,316</u>
APPLICATION OF FUNDS		
Dividends paid to shareholders	\$ 2,850,559	\$ 3,759,651
Expenditures for property, plant and equipment — net	6,052,608	22,819,665
Payments on long-term debt	2,485,000	2,485,000
Principal amount of subsidiary's Subordinate Debentures repurchased	—	160,000
Total	<u>\$11,388,167</u>	<u>\$29,224,316</u>

SEE ACCOMPANYING NOTES TO FINANCIAL STATEMENTS.

Notes to Financial Statements

Basis of Financial Statements and Investments in Subsidiaries

The consolidated financial statements include the accounts of all subsidiaries except two Italian companies which are 51% owned. These non-consolidated subsidiaries are carried at cost, and dividends received of \$147,000 during 1968 were approximately equal to equity in their earnings. The Company's equity in the net assets of these subsidiaries at December 31, 1968 was approximately \$2,900,000.

The accounts of consolidated foreign subsidiaries are expressed in U.S. dollars at appropriate rates of exchange.

Long-term Debt

Long-term debt outstanding at December 31, 1968 is shown in the following summary:

	Current Installments	Long-term
Commercial Solvents Corporation —		
3¾% notes payable to insurance companies in annual installments through 1972	\$1,560,000	\$ 4,720,000
4½% Convertible Subordinated Debentures due July 1, 1991 (annual sinking fund payments of \$1,000,000 in 1977 through 1990; and \$6,000,000 due at maturity)	—	20,000,000
	<u>1,560,000</u>	<u>24,720,000</u>
Northwest Nitro-Chemicals Ltd. —		
5¾% First Mortgage Serial Bonds of 1960 payable in annual installments through 1970	925,000	1,618,750
Subordinate Debentures of 1960 due June 30, 1979 bearing interest at 6% through June 30, 1970 and thereafter at 6½%, redeemable at 105% to June 30, 1970 and at reducing amounts thereafter (exclusive of \$1,904,950 principal amount owned by Commercial Solvents Corporation)	—	6,595,050
	<u>925,000</u>	<u>8,213,800</u>
	<u>\$2,485,000</u>	<u>\$32,933,800</u>

The loan agreements covering the 3¾% notes payable to insurance companies impose certain restrictions on the declaration of dividends other than stock dividends.

The 4½% Convertible Subordinated Debentures are convertible into common stock of the Company at \$68 per share and 294,118 shares of common stock were reserved for this purpose at December 31, 1968. The Debentures are subject to redemption at the option of the Company at prices ranging from 104% of the principal amount through June 30, 1969 to 100% of the principal amount on July 1, 1986 and thereafter. The Indenture relating to the Debentures imposes certain restrictions, including among others, those pertaining to the payment of dividends other than stock dividends.

The 5¾% First Mortgage Serial Bonds of Northwest Nitro-Chemicals Ltd. are secured by all of its property, plant and equipment and a first floating charge on all of its other property and assets. The mortgage bonds, subordinate debentures and preferred stock of Northwest contain a number of restrictions, including among others, those pertaining to the payment of dividends.

At December 31, 1968, \$3,006,000 of consolidated earnings retained in business was free of the restrictions contained in the Company's loan agreements.

Shareholders' Equity

The Series A Preferred Stock, 4.5% cumulative convertible, has voting rights and is convertible on the basis of .597 of a share of common stock for each one share of such preferred stock. There were no conversions of Series A Preferred Stock during 1968.

At December 31, 1968, 80,377 shares of common stock were reserved for conversion of the outstanding Series A Preferred Stock.

Stock Options

At December 31, 1967 options to purchase 70,079 common shares at prices varying from \$30.50 to \$40.75 per share were held by certain key executive employees under the Company's Stock Option Plans. During 1968 options for 42,800 shares became exercisable, options for 7,379 shares were cancelled, of which 500 shares have been returned to a reserved status and options for 450 shares were exercised at \$33.00 per share. The excess of option prices over par value of common stock issued \$14,400, has been credited to additional paid-in capital.

The purchase price under all plans is 100% of the market value at date of grant.

At December 31, 1968 there were outstanding options to purchase 62,250 shares, all of which were exercisable, at prices varying from \$30.50 to \$40.75 per share. In addition, 57,700 shares were reserved for which no options had been granted.

Earnings Per Share

Earnings per share are based on the average number of common shares outstanding during the year. There would be no material dilution of such earnings per common share if all shares reserved for the 4½% Subordinated Debentures and outstanding preferred stock were converted and all stock options were exercised.

Notes to Financial Statements (continued)

Prior Period Adjustment

In 1962, based on information available at that time, the Company estimated it would recover \$3,700,000 from the estate of a bankrupt account. Since then nothing has been received from the estate and that amount has been written off net of applicable Federal income taxes of \$1,924,000. The balance of earnings retained in business at January 1, 1967 has been restated from amounts previously reported to reflect this prior period adjustment of \$1,776,000.

Pensions

The Company and a subsidiary have pension plans, including the Company's new contributory pension plan for plant payroll employees which became effective January 1, 1968, covering substantially all of its eligible employees. Past service costs are being amortized over approximately a forty year period. The Company's policy is to fund pension costs accrued. The total pension expense for the year was \$656,994 for 1968 and \$350,542 for 1967.

ARTHUR YOUNG & COMPANY

277 PARK AVENUE
NEW YORK, N. Y. 10017

The Board of Directors and Shareholders
COMMERCIAL SOLVENTS CORPORATION

We have examined the accompanying consolidated balance sheet of Commercial Solvents Corporation and subsidiaries at December 31, 1968, the related statement of consolidated earnings and summary of earnings retained in business and the consolidated statement of source and application of funds for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the statements mentioned above present fairly the consolidated financial position of Commercial Solvents Corporation and subsidiaries at December 31, 1968, the consolidated results of their operations and the source and application of their consolidated working capital for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Arthur Young & Company

February 10, 1969

Ten Year Summary

Operating Record

(Amounts, other than per share figures, expressed in thousands)

Year	Net Sales	Cash Flow(a)	Depreciation, Depletion & Amortization	Net Earnings		Cash Dividends Paid Per Common Share
				Amount	Per Common Share(b)	
1959	\$ 70,381	\$ 6,531	\$3,680	\$2,851	\$.99	\$.25
1960	62,337	8,511	3,671	4,840	1.67	.50
1961	63,841	9,024	3,519	5,505	1.88	.65
1962(c) . . .	80,681	7,634(d)	4,466	3,168(d)	1.08(d)	.80
1963	86,199	10,702	4,718	5,984	2.03	.825
1964	93,132	11,449	4,546	6,903	2.24	1.10
1965	90,764	11,869	5,123	6,746	2.19	1.20
1966	95,356	11,500	5,221	6,279	2.05	1.20
1967(e) . . .	94,780	9,861	5,450	4,411	1.42	1.20
1968	108,843	8,424	6,912	1,512	.46	.90

Financial Position

(Amounts expressed in thousands)

Year	Total Assets(d)	Current Assets(d)	Current Liabilities	Working Capital(d)	Property, Plant & Equipment		Long-term Debt	Shareholders' Equity(d)
					Gross	Net		
1959	\$ 76,388	\$38,662	\$11,299	\$27,363	\$ 78,338	\$34,351	\$18,760	\$41,447
1960	79,566	41,482	10,722	30,760	80,760	33,102	17,200	44,889
1961	80,182	37,651	9,513	28,138	83,068	32,180	15,640	48,783
1962(c) . . .	95,914	43,339	8,905	34,434	104,008	44,683	28,749	50,200
1963	101,841	48,623	12,303	36,320	108,912	45,838	26,264	54,004
1964	105,004	49,027	12,758	36,269	115,949	48,806	23,746	57,568
1965	106,796	50,180	15,407	34,773	120,367	49,250	21,073	59,119
1966	123,254	62,960	12,866	50,094	119,287	53,297	38,064	61,904
1967(e) . . .	127,876	50,318	19,160	31,158	141,451	70,667	35,419	62,819
1968	124,357	47,751	18,700	29,051	147,238	69,807	32,934	61,495

Employees and Stockholders

Year	Number of Employees At Year End	Wages & Salaries	Cost of Pensions & Other Benefits	Assets Employed for Each Employee(d)	Number of Common Shareholders At Year End	Average Number of Common Shares Outstanding
1959	2,036	\$11,680,749	\$1,051,846	\$37,519	17,158	2,892,206
1960	1,971	11,480,373	1,005,545	40,368	17,917	2,891,278
1961	1,945	11,771,310	1,033,826	41,224	17,331	2,920,649
1962(c) . . .	2,301	13,615,773	1,278,869	41,684	17,001	2,946,632
1963	2,386	14,511,551	1,312,609	42,683	16,115	2,940,795
1964	2,346	15,340,986	1,589,154	44,759	15,035	2,985,856
1965	2,313	15,624,747	1,599,250	46,172	14,500	2,984,819
1966	2,413	16,067,664	1,687,421	51,079	16,312	2,993,100
1967(e) . . .	3,148	18,603,280	1,852,542	40,621	15,783	3,024,504
1968	3,036	22,762,228	2,697,018	40,961	15,254	3,032,620

(a) Net earnings, depreciation, depletion and amortization.

(b) Based on average number of shares outstanding during the year.

(c) Beginning in 1962, data include Northwest Nitro-Chemicals Ltd.

(d) 1962 and subsequent years, where applicable, have been restated to reflect prior period adjustment commented on in notes to financial statements.

(e) Includes Trojan Powder for four months in 1967.

Commercial Solvents Corporation

245 Park Avenue

New York, N. Y. 10017

Commercial Solvents Corporation

ANNUAL REPORT 1970

Commercial Solvents Corporation

Board of Directors

JEREMIAH MILBANK, JR., *Chairman*
(*Chairman, Executive Committee*)

WALTER C. BERGER
J. D. STETSON COLEMAN
W. WARD JACKSON
WILLIAM S. LEONHARDT
G. HILMER LUNDBECK
GRAHAM W. McMILLAN
H. V. SHERRILL*
EMANUEL T. WEILER
MAYNARD C. WHEELER*
ROBERT C. WHEELER*

** Member of Executive Committee*

Officers

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Chairman of the Board
ROBERT C. WHEELER,
President & Chief Executive Officer
J. FRED DUDLEY, *Vice President*
W. WARD JACKSON, *Vice President*
WILLIAM S. LEONHARDT,
Vice President
GRAHAM W. McMILLAN,
Vice President
H. L. PAYTON, *Vice President*
EDWARD M. TAYLOR,
Vice President
THOMAS PESCOD, *Controller*
HOWARD B. DURBIN, *Secretary*
EDWARD J. HOOGSTRA, *Treasurer*

Transfer Agent

Chemical Bank
20 Pine Street, New York, N. Y. 10015

Registrar

The Chase Manhattan Bank, N.A.
One Chase Manhattan Plaza,
New York, N. Y. 10015

Letter to Stockholders

Commercial Solvents Corporation's business reflected the pressures of inflation, rising costs, labor difficulties and the economic slowdown that were part of the national climate in 1970. Our profitable growth in certain specialty groups and in our international operations was more than offset by the adverse effect of these factors in other areas of our business.

In December, 1970, CSC reduced its holdings in Northwest Nitro-Chemicals Ltd., a Canadian fertilizer manufacturer. We sold 45 per cent of the outstanding common stock of Northwest to Pacific Supply Cooperative, which has extensive fertilizer distribution facilities in the northwestern United States.

CSC's remaining investment in Northwest, consisting of debentures, preferred stock and slightly less than 50 per cent of its outstanding common stock, has been written down by \$4,155,000 to \$1,441,000. This write-down and a \$2,469,000 after tax write-off of certain obsolete facilities, mainly fertilizer units, at CSC plants have been taken as an extraordinary charge of \$6,624,000 against CSC earnings. Beginning January 1, 1971, Northwest results are no longer consolidated in CSC financial statements.

Sales, excluding those of Northwest, were \$90,773,000 for 1970, as compared with \$94,424,000 for 1969. Earnings, excluding Northwest and the extraordinary charge, were \$1,882,000 or 58 cents per outstanding common share for 1970,

The annual meeting of shareholders will be held on April 1, 1971. A notice of the meeting, proxy statement and form of proxy is being sent to all shareholders. It will assist the management in preparing for the meeting if shareholders who do not expect to attend the meeting in person will sign, date and return the proxy promptly.

which compared with \$3,128,000 or 99 cents per share for 1969. After deducting losses attributable to Northwest, 1970 earnings of \$878,000 or 25 cents per share compared with \$2,174,000 or 68 cents per share for the preceding year. After giving effect to the extraordinary charge, CSC's net loss amounted to \$5,745,000 or \$1.93 per common share.

As discussed in last year's Annual Report, CSC has expanded its nitro-paraffins operations in terms of both increased production capacity and marketing effectiveness. Progress was made in 1970 through improved sales to certain specialty end use industries, although the general reduction of activity in the automotive, coatings, textile, housing and construction fields resulted in a slower rate of growth than anticipated.

Other CSC chemicals for industry, particularly carbon blacks, solvents and methanol derivatives, were affected by the economic slowdown and increased costs. The Thermatomic carbon black plant was down for nine weeks due to a strike.

Sales of our specialty products for animal health and nutrition and for pharmaceuticals continued to increase in 1970. We are expanding our production capacity for BACIFERM® animal feed supplements to meet rising demand. The market opportunities for RALGRO®, CSC's exclusive anabolic implant which increases the rate of animal growth and feed efficiency, were broadened in August, following clearance by the Food and Drug Administration for its use in additional farm animal and livestock species. RALGRO is the first of our resorcylic acid lactone (RAL) chemical family to reach the mar-

ketplace. Evaluation of the first RAL compound for human use is proceeding.

A portion of our ammonia production facilities had to be shut down in January and February for maintenance reasons. We have been able to achieve satisfactory production levels, and this sector of our business improved late in the year with the development of a better balance between supply and demand.

Our industrial explosives business showed signs of recovery from the depressed levels of recent years. Sales increased in 1970. Firmer market conditions indicate better prospects for these products in the year ahead.

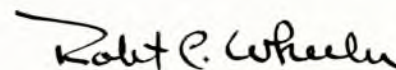
CSC's strengthened international organization and capabilities contributed to major gains for our business overseas. Sales and technical service coverage for animal health and nutrition, specialty industrial chemical and pharmaceutical products has been increased substantially. Results from our expanding international operations in 1970 relieved to some extent the impact on earnings of the profit squeeze in domestic markets.

H. L. Payton, a chemical engineer and 25-year veteran of the chemical industry, joined CSC as Vice President, Manufacturing, in May. Edward J. Hoogstra, Assistant Treasurer, was elected Treasurer of CSC in December. The resignation of Ivan L. Wiles as a Director was accepted with regret in January, 1970.

In summary, the cost / price squeeze, a strike and the 1970 economic climate had a serious effect on our results. We have improved our profit potential by decreasing our reliance on Canadian fertilizer

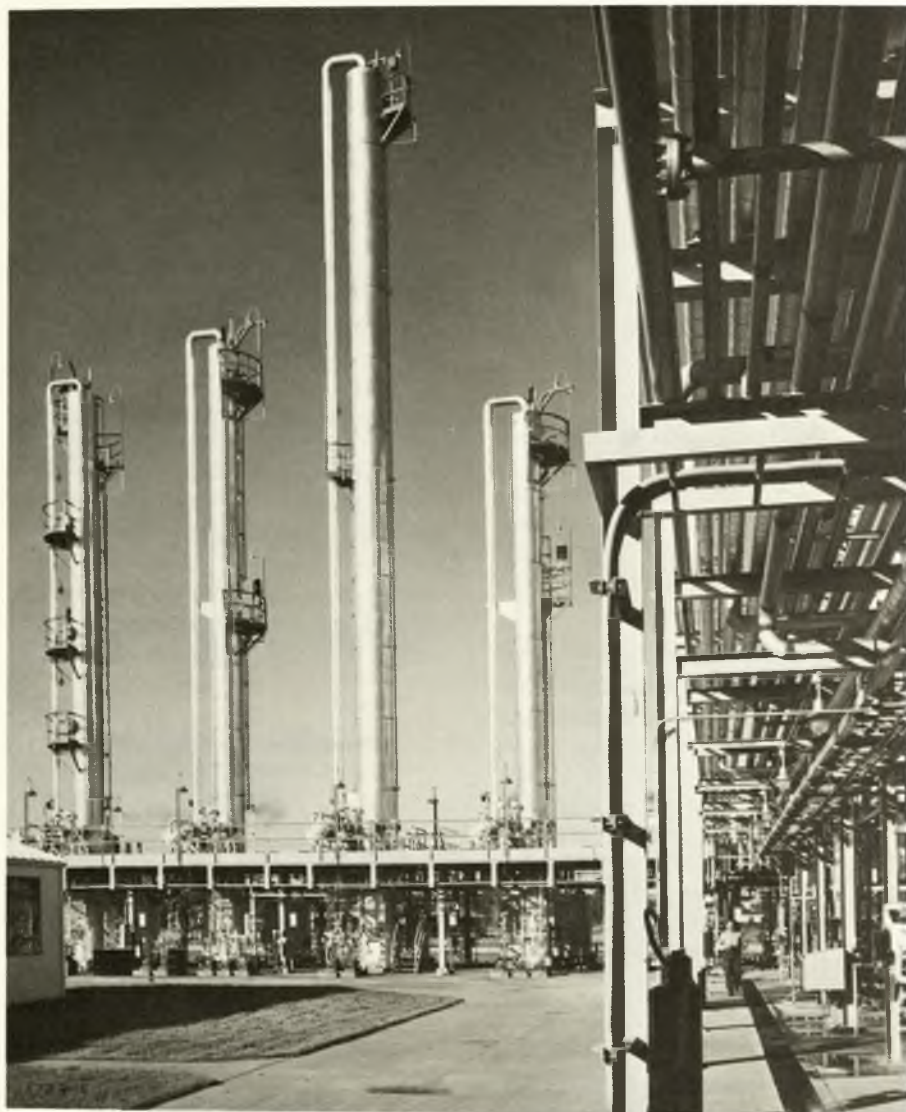
operations, which for some years have shown substantial loss. Strides have been taken to give us a tighter, more effective organization. Our products are of essential importance to industry, agriculture and human health, and there are prospects of more to come from our Research and Development laboratories.

As we move into early 1971, we are not yet seeing a turnaround in industry's consumption of some of our chemicals, but we look for profitable growth in animal health and nutrition products, the nitroparaffins and explosives in the U. S., and the continuing expansion of our international operations. Assuming no further deterioration in the business climate, we are projecting significantly improved profits in 1971.



Robert C. Wheeler
President

February 10, 1971



Nitroparaffins facilities

Chemicals for Industry

Our special purpose, intermediate and basic chemicals are used in most major industries.

Nitroparaffins (NP's) and their derivatives go into the manufacture of protective coatings, resins, adhesives, plastics, pharmaceuticals, synthetic fibers, textiles, high energy release products, paper and printing inks. When used to make protective coatings, certain NP's help to overcome air pollution problems. Our McWhorter products utilize NP's in vinyl and acrylic latex systems; urethane, polyester and oxazoline resins, and other special purpose chemicals for adhesives and coatings. New applications for the NP's and the products we make from them are continuing areas of emphasis at CSC Research.

Thermal carbon blacks made by our Thermatomic Carbon Company Division add quality and mass strength to molded and extruded rubber products for the automotive and other industries. The non-staining characteristic of our carbon blacks increases their usefulness in making polyethylene pipe and wire coatings.

Methanol, a basic chemical used widely as a solvent, has specific applications in wood finishes, gasoline additives and special fuels. Formaldehyde and pentaerythritol derived from methanol are used extensively in the manufacture of plastics and plywood. Methylamines, a group of intermediate chemicals, go into a long list of products including synthetic fibers and detergents. Many of the resins in CSC's Trojan Chemicals group are made from methanol.

Our ammonia is a basic source of nitrogen for fertilizer and manufacturing processes. Familiar uses of this basic chemical include household cleaning agents and high energy fuels. A portion of our ammonia is upgraded into other CSC products.

Industrial alcohols from CSC serve as solvents, raw materials and sterilizing agents. We formulate alcohols especially to meet the requirements of individual customers and their products.



Testing carbon black performance

Ammonia unit





Products for Pharmaceuticals and Animal Health and Nutrition

CSC antibiotics, vitamins, fine chemicals and special purpose compounds are used to make prescription and over-the-counter pharmaceuticals for human use, and animal health and nutrition products for raising farm animals and livestock more efficiently.

Many topical ointments for burns, cuts and abrasions contain our bacitracin antibiotic or its exceptionally stable form, zinc bacitracin,

which was developed by CSC Research. The unique and versatile family of the nitroparaffins and their derivatives have important uses in the pharmaceutical industry for chemical synthesis, as solvents and in formulating pharmaceuticals.

Our animal health and nutrition products help the farmer and stockman raise healthy animals that reach market weight sooner and on less feed than would otherwise be required. This group includes our BACIFERM® brand of zinc bacitracin feed supplements, RALGRO® anabolic implants, stabilized vitamins, choline chloride, and certain proprietary items for veterinary use. These products are marketed by



Implanting RALGRO

CSC's nationwide animal health and nutrition sales and technical service organization.

Human and animal applications of the RAL's continue to be the subject of extensive research programs. New compounds in this family are being identified and screened for desirable activity. Certain pharmaceutical uses of the RAL's are being investigated under agreements with Sandoz, Inc., and its parent company, Sandoz, Ltd. In CSC laboratories and elsewhere, investigation of the RAL's for animal health and nutrition purposes is moving ahead. Our scientists are also engaged in studies of other materials for animal use.



Feeding BACIFERM for growth



Use of TROJEL

Industrial Explosives

Explosives, primers and accessories of our Trojan-U. S. Powder Division are used in the construction, mining, quarrying and seismic industries. Our unified marketing organization for these products makes it possible for a customer to select any item he requires from one source.

This group includes products made from nitroglycerine, nitro-starch developed by Trojan and ammonium nitrate. TROJEL®, SUPER PRIME®, TROMAX® and ANOGEL® are some of the established trademarks for our industrial explosives.



Natural gas for manufacturing

Natural Gas Operations

Since 1959, CSC wells have supplied part of the natural gas we require as a raw material and fuel for our Sterlington, Louisiana, operations.

With the expansion of these facilities, programs of exploration, drilling, gas gathering and pipeline construction are being continued by our Louisiana Gas Production and Navarro Gas Production Company Divisions to improve our basic position.

International Operations

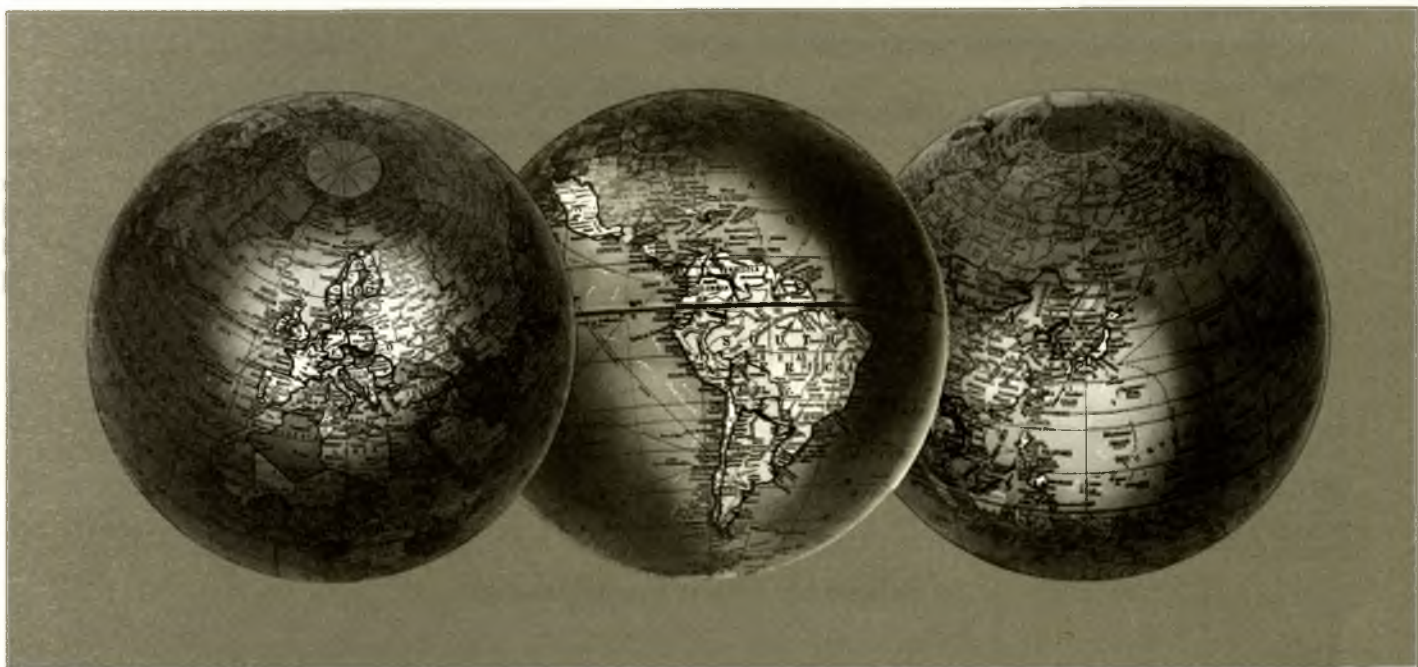
CSC, its subsidiaries and affiliates provide special purpose chemicals to customers in a large number of countries around the world. CSC International Ltd. handles many aspects of our growing business overseas.

In Europe, Istituto Chemioterapico Italiano, S.p.A., in Milan produces ethical pharmaceuticals for the Italian market and fine chemicals for Italy and other nations. Istituto's laboratories are CSC's research base on the European continent. CSC-Chemie, GmbH, in Cologne provides sales and technical service for nitroparaffins and derivatives sold to customers in Common Market countries. CSC-Chemie and Industrial Kern Española, S.A., in Madrid sell our animal health and nutrition

products to farmers, stockmen and veterinarians in many European countries.

In the Western Hemisphere, chemicals for industry, pharmaceuticals, and animal health and nutrition products are produced and marketed by our operations in Central and South America. In Mexico, Catalisis, S.A., produces methanol based industrial chemicals. Comsolmex, S.A., and Commercial Solvents de Mexico, S.A., provide blending, packaging, marketing and technical services to agricultural and industrial customers in Latin America. Products to increase the rate of livestock growth and feed efficiency are marketed in Central America by Comsolmex and in South America by Dismedic, S.A., our affiliate based in Buenos Aires.

In the Far East, specialty chemicals for industrial use are marketed to manufacturers in Japan.



COMMERCIAL SOLVENTS CORPORATION

Consolidated Balance Sheet

Assets

	December 31,	
	1970	1969
CURRENT ASSETS		
Cash	\$ 2,685,603	\$ 1,978,027
Accounts and notes receivable (less allowance for doubtful accounts, 1970— \$148,573; 1969—\$291,365)	14,083,225	16,385,478
Federal income tax refund claims	640,869	1,534,400
Inventories, at lower of average cost or market		
Finished products and material in process	11,978,553	13,529,402
Raw material and supplies	6,778,738	8,135,066
Prepaid expenses	1,051,142	1,068,833
Total Current Assets	37,218,130	42,631,206
INVESTMENTS		
Investment in non-consolidated foreign subsidiary, at cost	4,266,517	4,230,230
Other investments	1,793,522	674,154
Total Investments	6,060,039	4,904,384
PROPERTY, PLANT AND EQUIPMENT, at cost		
Land	1,121,847	1,208,510
Plant, equipment and gas properties	130,568,707	152,060,567
	131,690,554	153,269,077
Less accumulated depreciation, depletion and amortization	80,118,459	84,312,081
Net Property, Plant and Equipment	51,572,095	68,956,996
PATENTS AND OTHER INTANGIBLES, at amortized cost	591,831	568,793
DEFERRED CHARGES	309,993	996,480
	\$ 95,752,088	\$118,057,859

SEE ACCOMPANYING NOTES TO FINANCIAL STATEMENTS.

Liabilities and Shareholders' Equity

	December 31,	
	1970	1969
CURRENT LIABILITIES		
Notes payable—banks	\$ —	\$ 1,500,000
Accounts payable	5,285,437	6,196,765
Accrued Federal and Foreign income taxes	511,753	255,749
Other accrued liabilities	2,601,128	3,002,059
Current installments on long-term debt	1,697,500	4,178,750
Total Current Liabilities	10,095,818	15,133,323
LONG-TERM DEBT AND DEFERRED TAXES		
Long-term debt, less current installments	21,847,500	28,755,050
Deferred Federal and Foreign income taxes	8,194,124	11,264,754
Total Long-term Debt and Deferred Taxes	30,041,624	40,019,804
MINORITY INTEREST IN SUBSIDIARY	—	210,423
SHAREHOLDERS' EQUITY		
Preferred Stock \$20 par value, authorized 1,000,000 shares		
Series A Preferred Stock, 4.5% Cumulative Convertible, redeemable at \$20.50 through December 31, 1973 and \$20 thereafter		
Authorized—273,400 shares		
Issued —134,632 shares	2,692,640	2,692,640
Common Stock, \$1 par value		
Authorized—6,000,000 shares		
Issued —3,110,120 shares	7,066,694	7,066,694
Additional paid-in capital	8,724,398	8,724,398
Earnings retained in business	39,212,322	46,291,985
	57,696,054	64,775,717
Less treasury common stock, at cost—77,400 shares	2,081,408	2,081,408
Total Shareholders' Equity	55,614,646	62,694,309
	<u>\$ 95,752,088</u>	<u>\$118,057,859</u>

COMMERCIAL SOLVENTS CORPORATION

Consolidated Earnings and Summary of Earnings Retained in Business

	Year Ended December 31,	
	1970	1969
REVENUES		
Net sales	\$90,772,978	\$94,424,030
Other income (net)	746,543	739,247
	<u>91,519,521</u>	<u>95,163,277</u>
COSTS AND EXPENSES		
Cost of sales	67,899,840	69,142,097
Selling, research and administrative expenses	13,063,003	13,710,363
Depreciation, depletion and amortization (principally straight-line method)	6,058,566	5,779,963
Interest on borrowings	1,175,021	1,472,019
	<u>88,196,430</u>	<u>90,104,442</u>
EARNINGS FROM CONSOLIDATED OPERATIONS BEFORE FEDERAL AND FOREIGN INCOME TAXES	3,323,091	5,058,835
FEDERAL AND FOREIGN INCOME TAXES (net of investment credit 1969—\$563,000)	1,441,084	1,930,584
	<u>1,882,007</u>	<u>3,128,251</u>
EARNINGS FROM CONSOLIDATED OPERATIONS		
NORTHWEST NITRO-CHEMICALS LTD. OPERATIONS (after income tax benefits of \$942,984 in 1970; \$895,610 in 1969).	(1,003,516)	(954,306)
EARNINGS BEFORE EXTRAORDINARY ITEMS	878,491	2,173,945
EXTRAORDINARY ITEMS NET OF INCOME TAXES	(6,623,897)	—
NET EARNINGS (LOSS)	<u>(5,745,406)</u>	<u>2,173,945</u>
EARNINGS RETAINED IN BUSINESS AT BEGINNING OF YEAR	46,291,985	45,452,299
	<u>40,546,579</u>	<u>47,626,244</u>
DIVIDENDS PAID		
Preferred stock (\$.90 per share)	121,169	121,171
Common stock (\$.40 per share)	1,213,088	1,213,088
	<u>1,334,257</u>	<u>1,334,259</u>
EARNINGS RETAINED IN BUSINESS AT END OF YEAR	<u>\$39,212,322</u>	<u>\$46,291,985</u>
PER SHARE OF COMMON STOCK		
Earnings from Consolidated Operations	\$.58	\$.99
Earnings before Extraordinary Items . . . . .	.25	.68
Extraordinary Items	(2.18)	—
Net Earnings (loss)	<u>\$(1.93)</u>	<u>\$.68</u>

SEE ACCOMPANYING NOTES TO FINANCIAL STATEMENTS.

Consolidated Statement of Source and Application of Funds

	Year Ended December 31,	
	1970	1969
SOURCE OF FUNDS		
Net earnings (loss)	\$ (5,745,406)	\$ 2,173,945
Non-cash charges (credits):		
Write-off of fixed assets included in extraordinary items	3,865,423	—
Effect of sale and revaluation of interest in Northwest Nitro-Chemicals Ltd.	3,273,742	—
Depreciation, depletion and amortization	6,058,566 (a)	7,112,526 (b)
Increase (decrease) in deferred Federal and Foreign income taxes (relating principally to depreciation)	(2,170,370) (a)	294,656
Funds from operations	5,281,955	9,581,127
Proceeds from sale of investment in unconsolidated subsidiary	—	373,767
Decrease in working capital	375,571	1,888,158
Total	<u>\$ 5,657,526</u>	<u>\$11,843,052</u>
APPLICATION OF FUNDS		
Dividends paid	\$ 1,334,257	\$ 1,334,259
Expenditures for property, plant and equipment—net	2,885,824 (a)	6,262,514
Decrease in long-term debt	1,312,500 (a)	4,178,750
Other items—net	124,945 (a)	67,529
Total	<u>\$ 5,657,526</u>	<u>\$11,843,052</u>

(a) Excludes effect of sale and revaluation of interest in Northwest Nitro-Chemicals Ltd.

(b) Includes Northwest Nitro-Chemicals Ltd. depreciation of \$1,332,563.

Notes to Financial Statements

Basis of Financial Statements and Investment in Non-Consolidated Foreign Subsidiary

The consolidated financial statements include the accounts of all subsidiaries except a 51% owned Italian company. This non-consolidated subsidiary is carried at cost, and dividends received of \$83,000 during 1970 were approximately equal to equity in earnings. The Company's equity in net assets of this subsidiary at December 31, 1970 was approximately \$920,000.

The accounts of consolidated foreign subsidiaries are expressed in U. S. dollars at appropriate rates of exchange.

Extraordinary Items

The Company discontinued manufacturing operations at certain obsolete plants during the year and has decided to discontinue operations at certain other facilities. In December 1970 the Board of Directors approved the write-off of these facilities, which resulted in an extraordinary charge to

earnings of \$2,469,000, after applicable income tax credit of \$2,020,000.

At year end the Company sold 45% of the outstanding common stock of Northwest Nitro-Chemicals Ltd., reducing its investment to slightly less than 50% of the common stock outstanding, certain debentures and preferred stock. The revaluation of the Company's remaining investment and notes received from this sale to estimated value have been reflected by an extraordinary charge to earnings of \$4,155,000. No effect has been given to possible income tax benefits, if any. Northwest's operations have been included as a separate item in net earnings through December 31, 1970, the date of the sale. Net sales of Northwest thus excluded from consolidated net sales were \$6,735,000 and \$8,998,000 in 1970 and 1969, respectively. Northwest was in the consolidated balance sheet in 1969 but was not consolidated at December 31, 1970, since it was no longer a subsidiary.

Notes to Financial Statements (continued)

The condensed balance sheet of Northwest Nitro-Chemicals Ltd. at December 31, 1970 is as follows:

Current assets	\$ 5,194,488
Property, plant and equipment (net)	9,260,230
Other assets	888,945
Total	<u>\$15,343,663</u>
Current liabilities	\$ 3,358,870
Long-term debt	8,500,000
Shareholders' equity	3,484,793
Total	<u>\$15,343,663</u>

Long-term Debt

Long-term debt outstanding at December 31, 1970 is shown in the following summary:

	Current Installments	Long-term
Commercial Solvents Corporation—		
3¾% notes payable to insurance companies in annual installments through 1972 . . .	\$1,560,000	\$ 1,600,000
4½% Convertible Subordinated Debentures due July 1, 1991 (annual sinking fund payments of \$1,000,000 in 1977 through 1990; and \$6,000,000 due at maturity)	—	20,000,000
Other	137,500	247,500
	<u>\$1,697,500</u>	<u>\$21,847,500</u>

The loan agreements covering the 3¾% notes payable to insurance companies impose certain restrictions on the declaration of dividends other than stock dividends.

The 4½% Convertible Subordinated Debentures are convertible into common stock of the Company at \$68 per share and 294,118 shares of common stock were reserved for this purpose at December 31, 1970. The Debentures are subject to redemption at the option of the Company at prices ranging from 103.50% of the principal amount through June 30, 1971 to 100% of the principal amount on July 1, 1986 and thereafter. The Indenture relating to the Debentures imposes certain restrictions, including among others, those pertaining to the payment of dividends other than stock dividends.

At December 31, 1970 \$862,000 of consolidated earnings retained in business was free of the restrictions contained in the Company's loan agreements.

Shareholders' Equity

The Series A Preferred Stock, 4.5% cumulative convertible, has voting rights and is convertible on the basis of .597 of a share of common stock for each one share of such preferred stock. There were no conversions of Series A Preferred Stock during 1970.

At December 31, 1970 80,377 shares of common stock were reserved for conversion of the outstanding Series A Preferred Stock.

Stock Options

At December 31, 1969 options to purchase 84,500 common shares at prices of \$40.75 and \$22.25 per share were held by certain key executive employees under the Company's Stock Option Plan. During 1970 options to purchase 4,000 common shares were granted at \$25.00 per share. Options for 43,200 shares became exercisable, and no options were exercised, expired or were cancelled.

The purchase price under the plan is 100% of the market value at date of grant.

At December 31, 1970 there were outstanding options to purchase 88,500 shares of which options for 41,300 shares are exercisable at \$40.75 per share, options for 43,200 shares are exercisable at \$22.25 per share and options for 4,000 shares become exercisable in 1971 at \$25.00 per share. In addition, 11,500 shares were reserved for which no options had been granted.

Earnings per Share

Earnings per share are based on the average number of common shares outstanding during the year. There would be no material dilution of such earnings per common share if all shares reserved for the 4½% Subordinated Debentures and outstanding preferred stock were converted and all stock options were exercised.

Pensions

The Company has pension plans covering substantially all of its employees. The total pension expense was \$688,383 for the year 1970 and \$621,453 for 1969 (exclusive of Northwest Nitro-Chemicals Ltd.), which included, as to certain of the plans, amortization of prior service cost over periods up to 40 years. The Company's policy is to fund pension costs accrued. The excess of actuarially computed vested benefits over funded amounts and accruals approximated \$759,000 at December 31, 1970 and \$830,000 at December 31, 1969.

Report of Certified Public Accountants

The Board of Directors and Shareholders

COMMERCIAL SOLVENTS CORPORATION

We have examined the accompanying consolidated balance sheet of Commercial Solvents Corporation at December 31, 1970 and the related consolidated statements of earnings and summary of earnings retained in business and source and application of funds for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the statements mentioned above present fairly the consolidated financial position of Commercial Solvents Corporation at December 31, 1970 and the consolidated results of their operations and the source and application of their consolidated funds for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

New York, N. Y.
February 10, 1971

ARTHUR YOUNG & COMPANY

Five Year Summary
(\$000 omitted)

	<u>1970</u>	<u>1969</u>	<u>1968</u>	<u>1967(a)</u>	<u>1966</u>
Operating Record					
Net sales (b)	\$ 90,773	\$ 94,424	\$ 95,508	\$ 77,379	\$ 74,628
Earnings from consolidated operations . .	1,882	3,128	2,106	4,411	5,866
Earnings from consolidated operations per common share . . . . .	.58	.99	.66	1.42	1.91
Earnings before extraordinary items . . .	879	2,174	1,512	4,411	6,279
Earnings before extraordinary items per common share . . . . .	.25	.68	.46	1.42	2.05
Net earnings (loss)	(5,745) (c)	2,174	1,512	4,411	6,279
Net earnings (loss) per common share . .	(1.93) (c)	.68	.46	1.42	2.05
Cash dividends paid per common share . .	.40	.40	.90	1.20	1.20
Depreciation, depletion and amortization (b)	6,059	5,780	5,665	4,102	3,850
Cash flow (d)	7,941	8,908	7,771	8,535	9,762
Financial Position (e)					
Total assets	\$ 95,752	\$118,058	\$124,716	\$128,236	\$123,614
Current assets	37,218	42,631	48,086	50,653	63,295
Current liabilities	10,096	15,133	18,700	19,160	12,866
Working capital	27,122	27,498	29,386	31,493	50,429
Property, plant and equipment—(gross) . .	131,691	153,269	147,238	141,451	119,287
Property, plant and equipment—(net) . .	51,572	68,957	69,807	70,667	53,297
Long-term debt	21,848	28,755	32,934	35,419	38,064
Shareholders' equity	55,615	62,694	61,855	63,179	62,264
Employees and Stockholders					
Number of employees at year-end (b) . .	2,509	2,705	2,723	2,828	2,080
Wages and salaries (b)	\$ 21,780	\$ 21,055	\$ 20,867	\$ 16,564	\$ 14,154
Cost of pensions and other benefits (b) . .	\$ 2,632	\$ 2,506	\$ 2,428	\$ 1,766	\$ 1,632
Number of common shareholders at year-end	14,544	14,980	15,254	15,783	16,312
Average number of common shares outstanding	3,032,720	3,032,720	3,032,620	3,024,504	2,993,100

(a) Includes Trojan Powder for four months in 1967.

(b) To conform with the 1970 presentation of consolidated earnings these data have been restated for the years 1966 through 1969 to exclude Northwest Nitro-Chemicals Ltd.

(c) After deducting extraordinary items of \$6,624,000, or \$2.18 per common share.

(d) Earnings from consolidated operations and depreciation, depletion and amortization.

(e) Includes Northwest Nitro-Chemicals Ltd. for the years 1966 through 1969.

Commercial Solvents Corporation

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